

JLBC STAFF PRESENTATIONS TO THE APPROPRIATIONS COMMITTEES

TABLE OF CONTENTS

Administration, Arizona Department of
Agriculture, Arizona Department of
AHCCCS
Attorney General - Department of Law
Corrections, State Department of
Commerce, Department of
Community Colleges, Arizona
Corporation Commission
Deaf & the Blind, AZ State Schools for the
Economic Security, Department of
Education, Department of
Environmental Quality, Department of
Gaming, Department of
Geological Survey, Arizona
Government Information Technology Agency
Health Services, Department of
Housing, Arizona Department of
Judiciary
Juvenile Corrections, Department of
Land Department, State
Lottery Commission, Arizona State
Mine Inspector, State
Navigable Stream Adjudication Commission, Arizona
Parks Board, Arizona State
Postsecondary Education, Commission for
Public Safety, Department of
Revenue, Department of
School Facilities Board
Secretary of State, Department of State
Tourism, Office of
Transportation, Department of
Treasurer, State
Universities
Veterans' Services, Department of
Water Resources, Department of

Department of Administration

JLBC Baseline -- Executive Budget

Cost Center Summary

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Financial Services	\$12.3 M GF/OF	\$14.2 M GF/OF
2. Facilities Management	\$0	\$2.8 M GF/OF
3. Human Resources	\$(337.9) K GF/OF	\$1.4 M GF/OF
4. Information Technology Services	\$(594.2) K GF/OF	\$3.2 M GF/OF
5. Support Services	\$0	\$810 K GF/OF
6. Risk Management	\$1.4 M OF	\$1.3 M OF
Total – General Fund	<hr/> \$12.6 M	<hr/> \$15.6 M
Total – Other Fund	\$249.8 K	\$8.2 M

JLBC Baseline -- Executive Budget

Financial Services

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Private Prison Beds	\$11.2 M GF	\$11.2 M GF
2. ENSCO	\$1.9 M GF	\$1.9 M GF
3. Federal Funds Data Warehouse	\$0	\$909.2 K GF
4. GAO Turnover	\$0	\$640.2 K GF
5. Disparity Study	\$0	\$400 K GF
6. Zuni Water Rights Settlement	\$(796) K OF	\$(796) K OF
Total – General Fund	\$13.1 M	\$15.0 M
Total – Other Fund	\$(796) K	\$(796) K

Arizona Department of Administration

Arizona Financial Information System (AFIS)

- **AFIS Background**
 - AFIS has managed the state's financial data for the past 14+ years.
 - AFIS Collections Fund footnote allows the collection of up to \$1.8 million annually.
- **Executive Recommendation**
 - Increases the amount allowed to be collected in the footnote by \$3.8 M to fund Phase I of an AFIS replacement project.
 - Five-year replacement project estimated to cost \$117 M.

JLBC Baseline -- Executive Budget

Facilities Management

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Utilities	\$0	\$1.9 M GF/OF
2. Electronic Physical Security	\$0	\$960 K OF
3. Privatized Lease-to-Own Agreements	\$0	\$6 K OF
Total – General Fund	<hr/> \$0	<hr/> \$625.7 K
Total – Other Fund	\$0	\$2.2 M

Arizona Department of Administration Utilities Cost Increases

- Executive recommends an FY 2007 supplemental of \$1.7 M.
 - Amount largely based on a projected 20% electricity rate increase, which will not be decided until spring 2007.
- Executive recommends additional \$625,700 GF and \$1.3 M OF in FY 2008.

JLBC Baseline -- Executive Budget

Human Resources

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Pro Rata Increase	\$0	\$744.5 K OF
2. Self-Insurance Administration	\$0	\$578.7 K OF
3. HRIS Debt Service	\$162.1 K OF	\$162.1 K OF
4. Employee Wellness Program	\$(500) K GF	\$(200) K GF/OF
5. Privatized Lease-to-Own Agreements	\$0	\$61.8 K OF
6. Certificates of Participation	\$0	\$8.1 K OF
Total – General Fund	<hr/> \$(500) K	<hr/> \$(500) K
Total – Other Fund	\$162.1 K	\$1.9 M

Arizona Department of Administration Health Plan Statutory Changes

- **Health Plan Changes**
 - As permanent law, require ADOA to report all changes to employee health benefits for the upcoming plan year.
 - Replaces a 2006 session law that required the same information.
- **Health Plan Premium**
 - As session law, continue to prohibit ADOA from implementing a differentiated health insurance premium based on the integrated or non-integrated status of the provider.

JLBC Baseline -- Executive Budget

Information Technology Services

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Tri-Agency Disaster Recovery	\$0	\$3.0 M OF
2. Telework	\$0	\$496.1 K OF
3. IT Security	\$0	\$299 K OF
4. One-time Equipment	\$(552) K OF	\$(552) K OF
5. AZNet Lease	\$(42.2) K GF	\$(42.2) K GF
Total – General Fund	<hr/> \$(42.2) K	<hr/> \$(42.2) K
Total – Other Fund	\$(552) K	\$3.2 M

Arizona Department of Administration

AZNet Infrastructure Investment Account (IIA)

- **AZNet Background**
 - Laws 2003, Chapter 263 privatized the state's voice and data communication services
 - Reinvests savings in network upgrades, as well as new features & services
- **Infrastructure Investment Account**
 - The AZNet rate charged to agencies includes an amount to be deposited into the IIA.
 - IIA money is held in a private holding account.
 - ADOA projects spending \$4.7 M from the IIA in FY 2008.
 - JLBC staff recommends clarifying statute establishing the Telecommunications Fund to appropriate all expenditures from the fund, including those made from sub-accounts and private accounts.

JLBC Baseline -- Executive Budget

Support Services

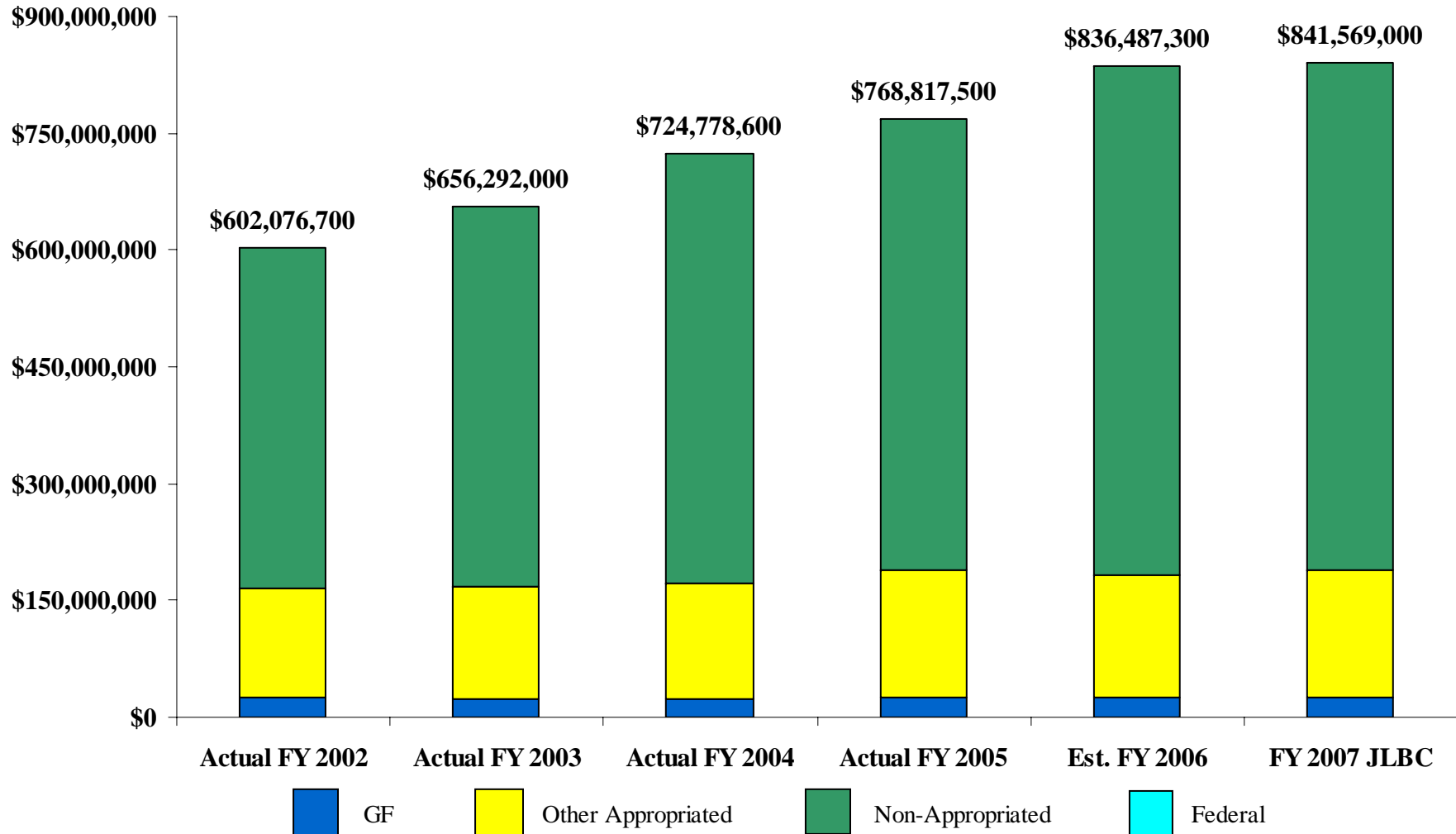
	<u>JLBC Baseline</u>	<u>Executive</u>
1. Capitol Police Security Enhancement	\$0	\$515.1 K
		OF
2. Bus Subsidies	\$0	\$268.1 K
		GF
3. Fleet Fees	\$0	\$26.8 K
		GF
	<hr/>	<hr/>
Total – General Fund	\$0	\$294.9 K
Total – Other Fund	\$0	\$515.1 K

JLBC Baseline -- Executive Budget

Risk Management

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Property and Liability Losses	\$(596.2) K OF	\$(596.2) K OF
2. Workers' Compensation Losses	\$1.9 M OF	\$1.9 M OF
3. External Legal Services	\$(79.9) K OF	\$(79.9) K OF
4. Highway Hazards Assessments	\$150 K OF	\$0
5. Privatized Lease-to-Own Agreements	\$0	\$21.2 K OF
6. Certificates of Participation	\$0	\$8 K OF
Total – General Fund	<hr/> \$0	<hr/> \$0
Total – Other Fund	\$1.4 M	\$1.3 M

**Arizona Department of Administration
Total Funds FY 2002 - FY 2007**



Arizona Department of Agriculture

4 Ports of Entry Currently Operating

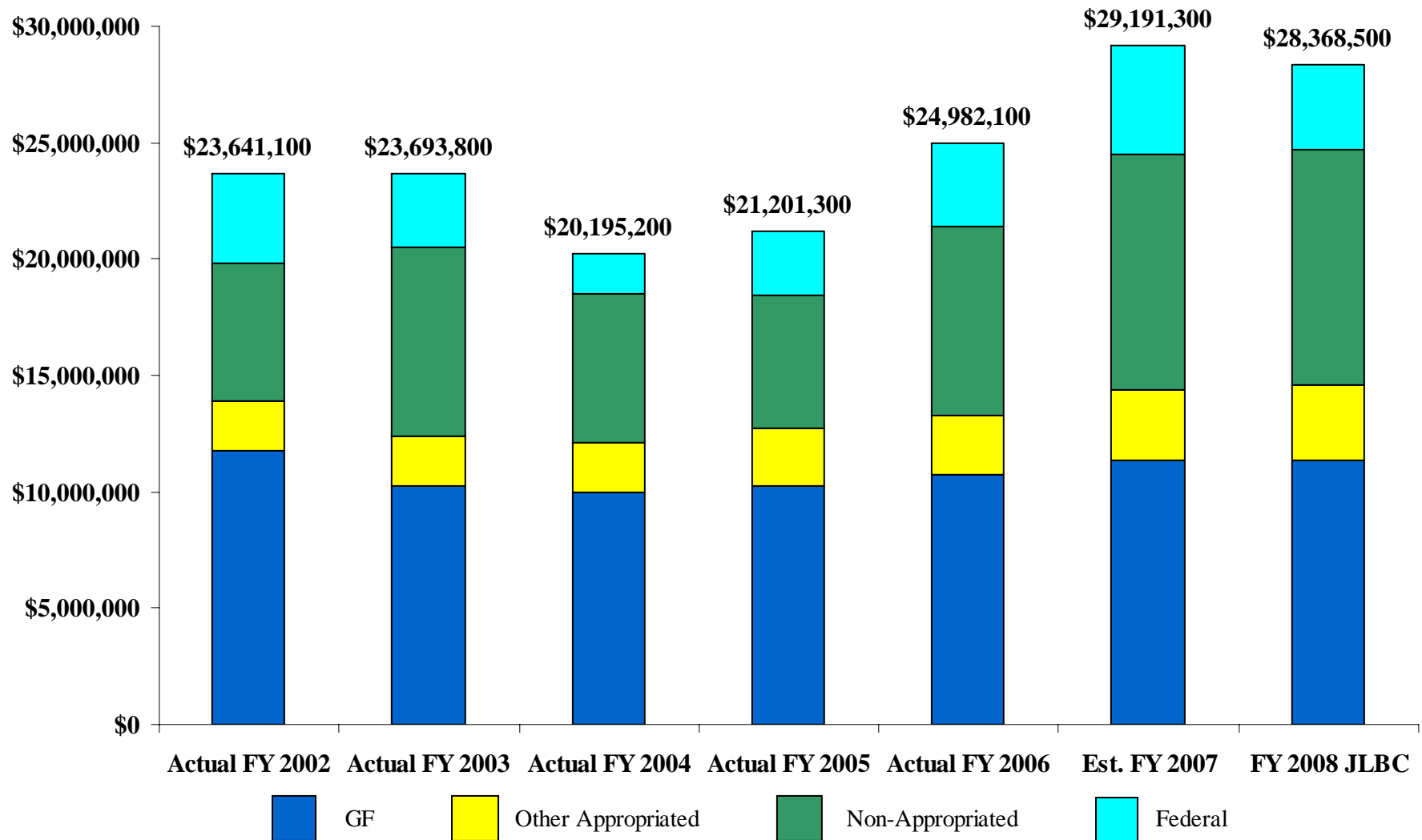
Eastern Border

- San Simon - 24/7, 16 FTE
- Sanders - 24/7, 8 FTE
- Duncan - 16/5, 2 FTE

Western Border

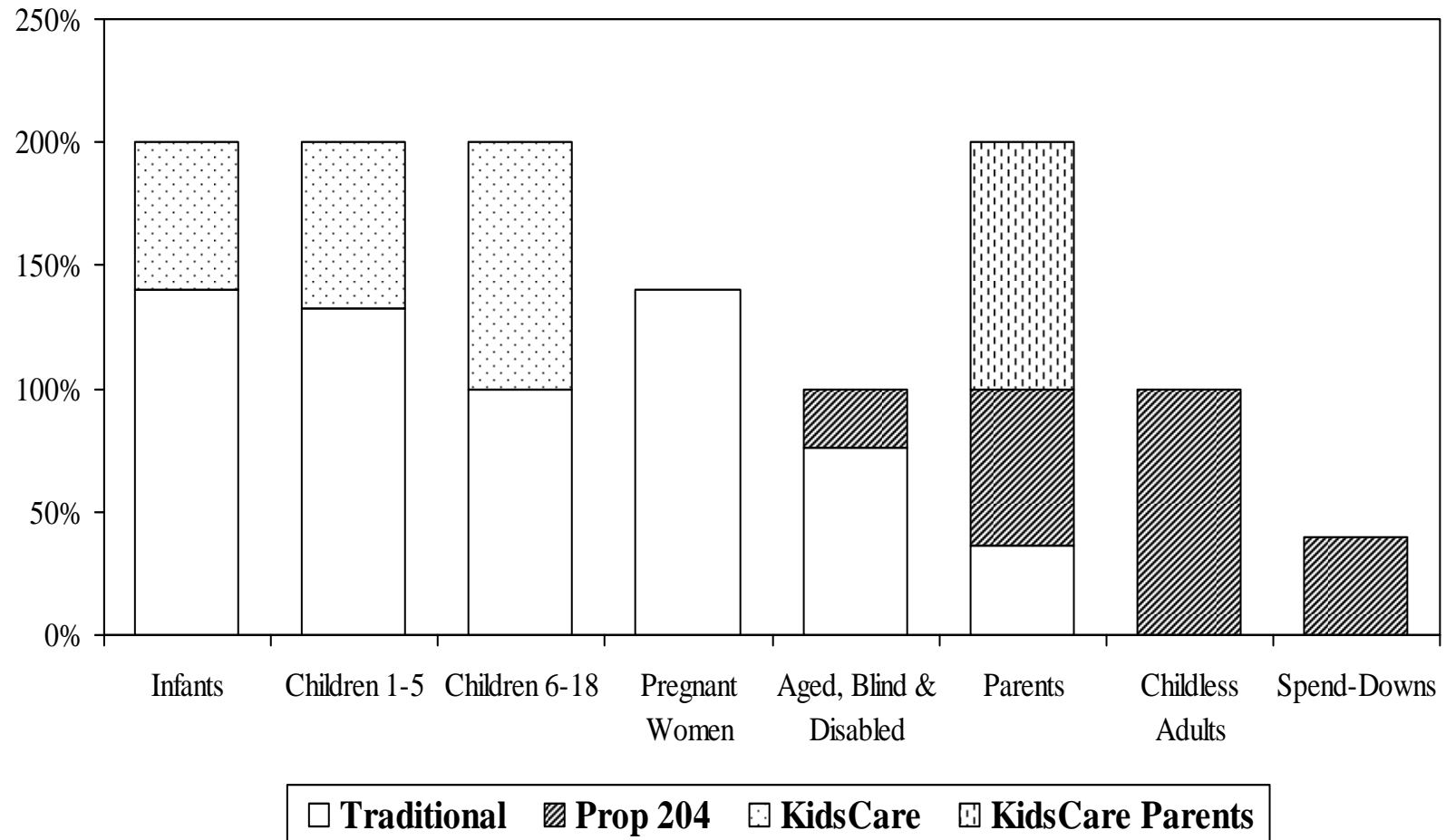
- Yuma – 16/7, 6 FTE

**Arizona Department of Agriculture
Total Funds FY 2002 - FY 2008**



Arizona Health Care Cost Containment System

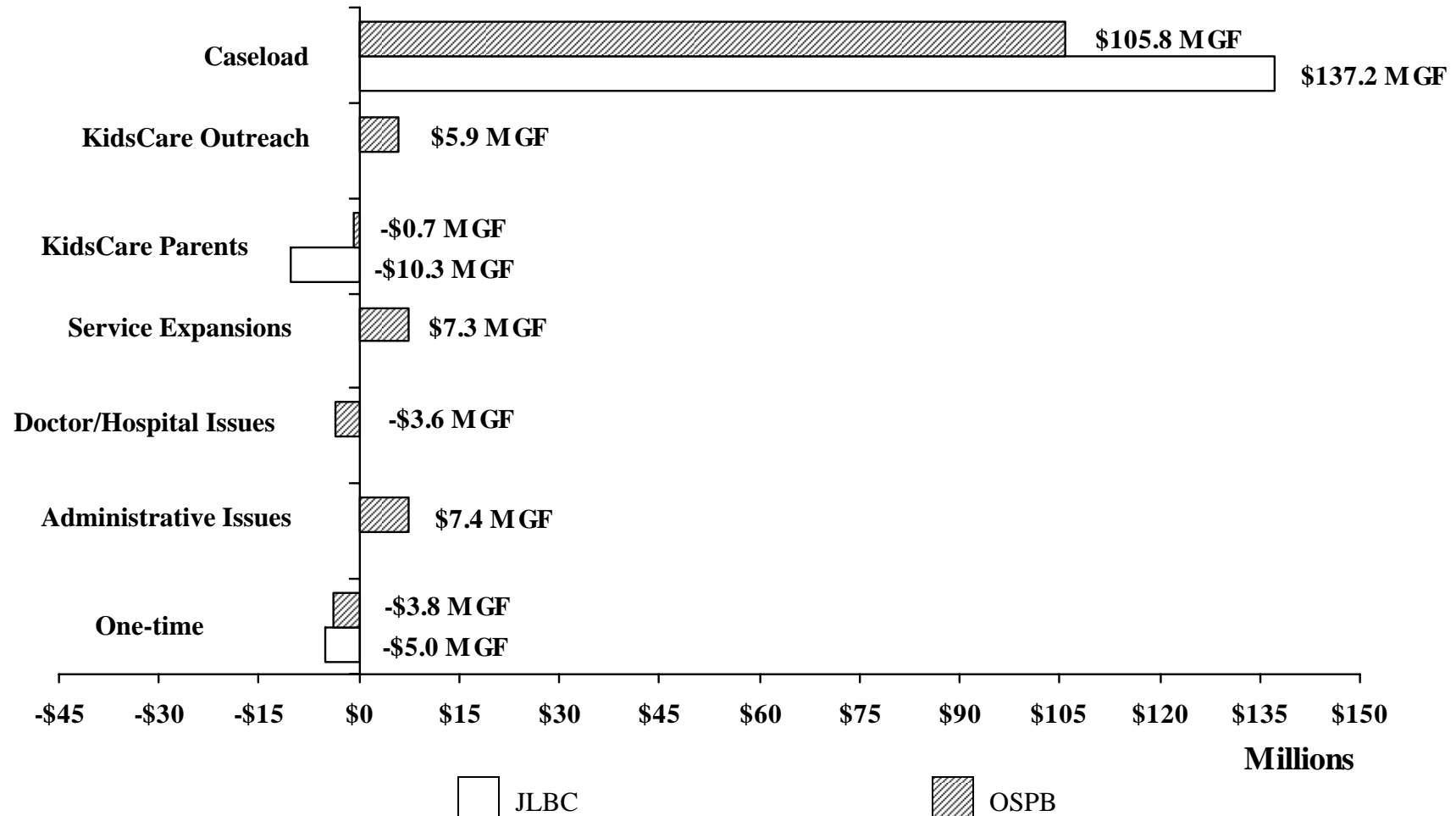
AHCCCS Eligibility



*Statutory authority for KidsCare Parents expires July 1, 2007.

Comparison of JLBC Baseline and Executive General Fund increases above FY 2007

-- JLBC Baseline: \$122 M; Executive: \$118 M



JLBC Funds \$137 M in Formula Growth -- Executive funds at \$106 M

- Acute Caseload Projected to Grow 3.0% (Executive 1.8%)
 - Total caseload projected to reach 1.1 M by June '08
- Capitation Rates are Projected to Grow 6.0% (Executive concurs)
 - Capitation rates are specific rates paid to health plans per enrolled member per month. Rates represent an average cost per person and are updated for population and inflation
- JLBC Baseline includes \$31 M GF more in formula funding due to:
 - Higher caseload growth assumptions in FY 2008
 - Executive shifts \$4.7 M in formula costs onto the counties

Prop 203 May Reduce Tobacco Tax Revenue Available for AHCCCS

- Prop 203 increased the cigarette tax by 80¢ per pack to fund childhood programs
- Tax increase will likely reduce smoking and AHCCCS' current tobacco revenues
- JLBC Fiscal Note estimated loss at \$15 M; Executive estimates loss at \$7 M
- Executive assumes tobacco settlement will increase by \$5 M
- Based on litigation, tobacco companies seeking to have their obligations reduced

Executive Adds Partial Year Funding of \$5.9M GF for KidsCare Program & Outreach

- 119,000 currently eligible children do not participate – Executive estimates that their expanded outreach would increase participation by 48,000 by 2010
- Executive expands KidsCare children program to 300% of poverty line (\$60K for a family of 4). Executive estimates up to 26,000 could be eligible. Costs for this program would receive a 3:1 federal match rate.
- Executive's \$5.9 million cost estimate does not reflect full cost of this initiative
 - Further analysis of full implementation cost is needed
 - Full phase in does not occur until 2010
- KidsCare Parents is not included in the JLBC Baseline, as it is set to statutorily expire at the end of FY 2007. The cost to retain the program is \$11.2 million above the JLBC Baseline

Executive Service Expansions

-- Includes \$7.3 M to expand service delivery to AHCCCS clients

- **HPV Vaccine** **\$2.9 M GF**
Provides vaccines to women aged 21 – 26 to prevent cervical cancer
- **Adult Dental Care** **\$2.0 M GF**
Comprehensive dental care to all long-term care patients
- **Early Screening Tool** **\$1.4 M GF**
Screen young children (up to 24 months) for behavioral and developmental problems to assist in early diagnosis
- **Hospice Coverage** **\$1.0 M GF**
Provide care to AHCCCS members aged 21 – 65

* All issues would receive funding at regular federal matching rate

Doctor & Hospital Executive Issues

- **Graduate Medical Education** **\$3.0 M GF**
 - Increase the number of doctor residency hospital positions by 95
 - Also adds \$300K from insurance company fines for Office of Recruitment
- **Hospital Loan Residency** **\$(1.0) M GF**
 - Eliminate the FY 2007 appropriation
- **Outlier Change** **\$(5.6) M GF**
 - Includes savings from outlier methodology change

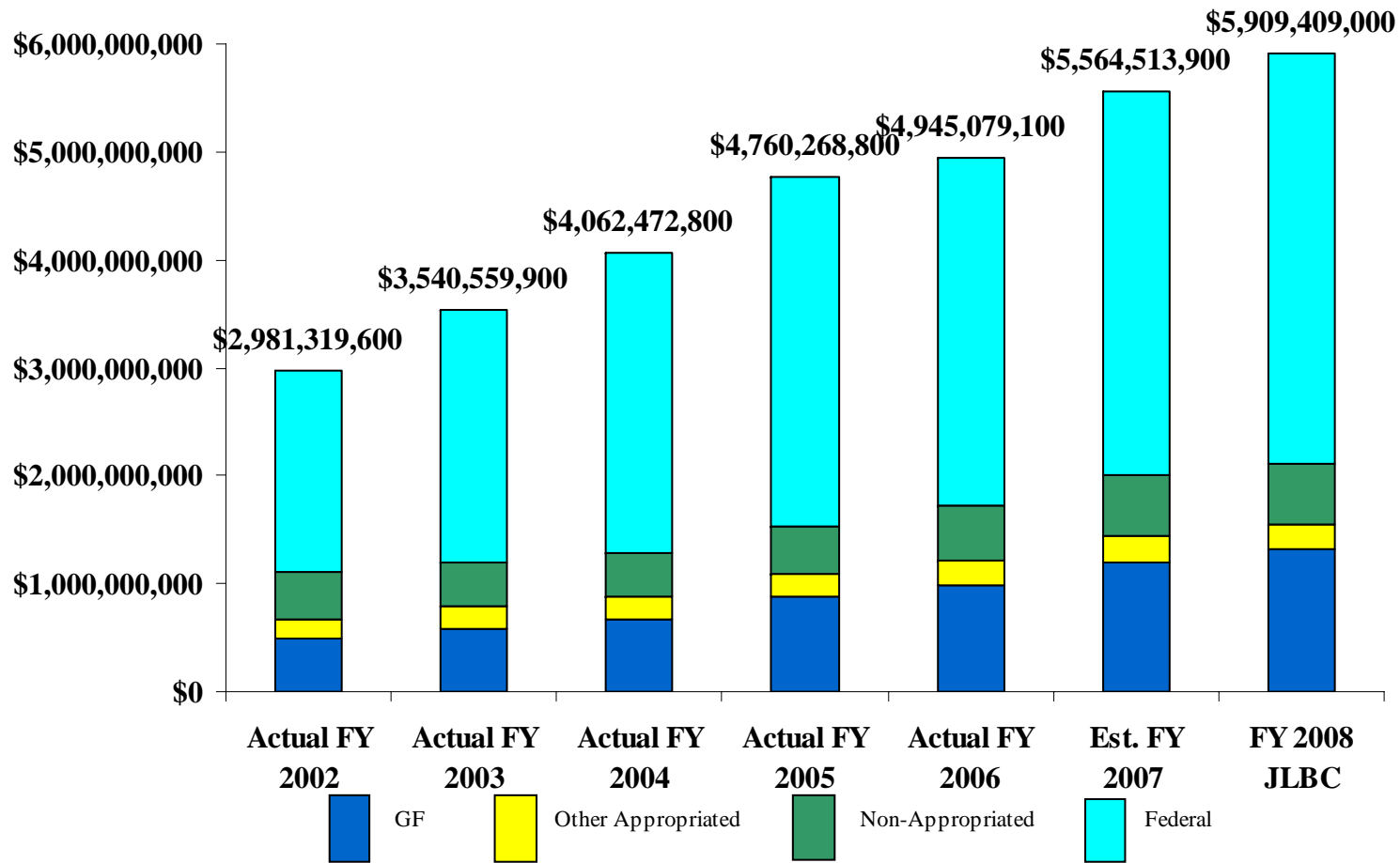
Executive Administrative Issues

- **DES IT Project** **\$2.5 M GF**
Upgrades to the eligibility determination system. Total project costs of \$25 M GF over 5 years.
- **2-1-1 Call Center** **\$2.5 M GF**
9 FTE Positions for overhead support of local call centers
- **Replace Claims System** **\$1.3 M GF**
This computer system processes fee-for-service claims
- **Administrative Staff** **\$1.1 M GF**
34.5 FTE Positions including auditors, customer service representatives and premium billing staff

Healthcare Group Administration Expenses

- Healthcare Group (HCG) provides health insurance coverage for individuals and small businesses through participating client revenues
- Executive is recommending \$2.1 M OF and 24 FTE Positions for additional administration funding
- Statute says that HCG administration monies are appropriated. AHCCCS, however appears to treat some admin costs as non-appropriated
- JLBC Baseline includes statutory language to further clarify that HCG administration expenses are subject to appropriation

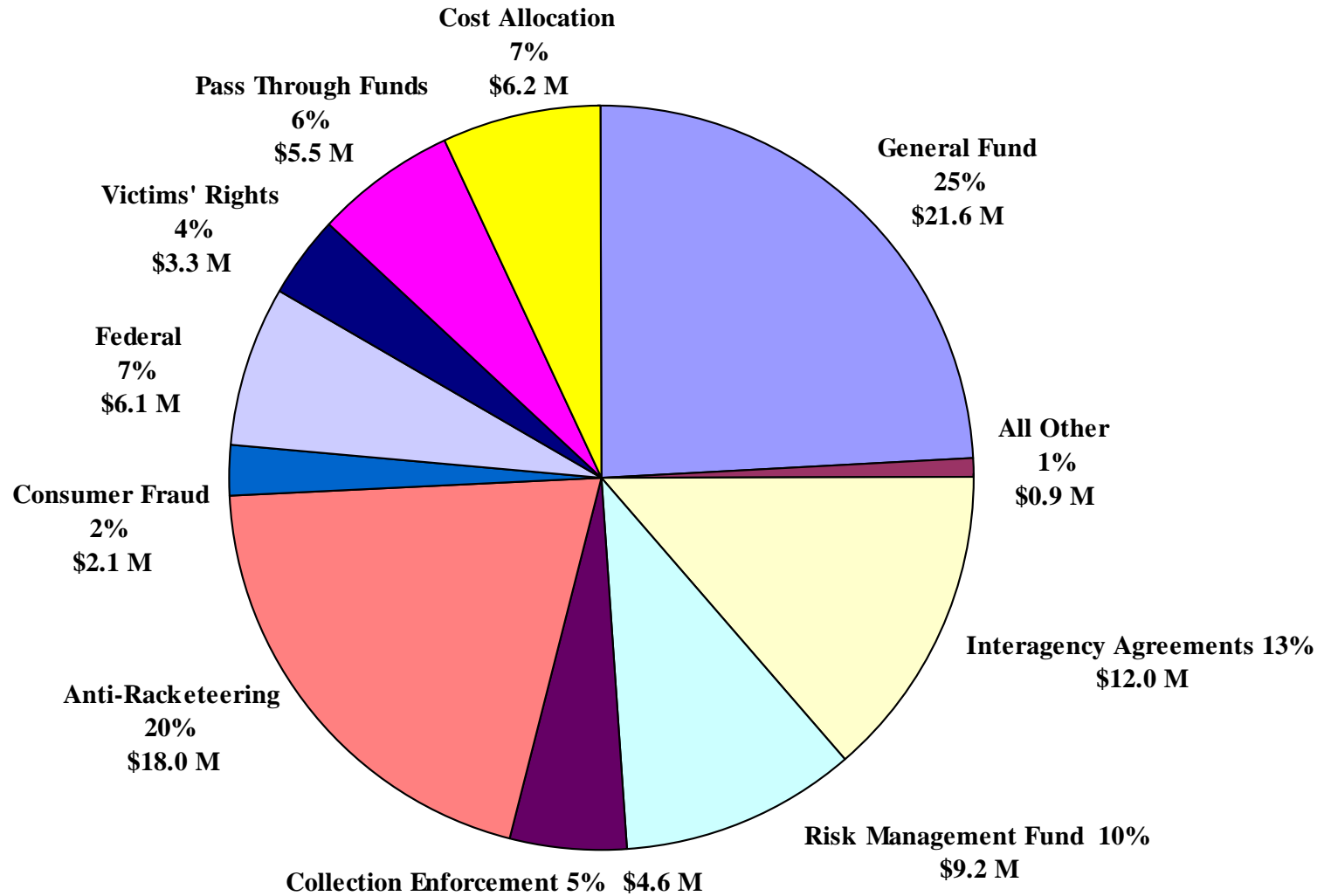
Arizona Health Care Cost Containment System Total Funds FY 2002 - FY 2008



Attorney General

Attorney General

Total Funding in FY 2008 = \$89.5 M



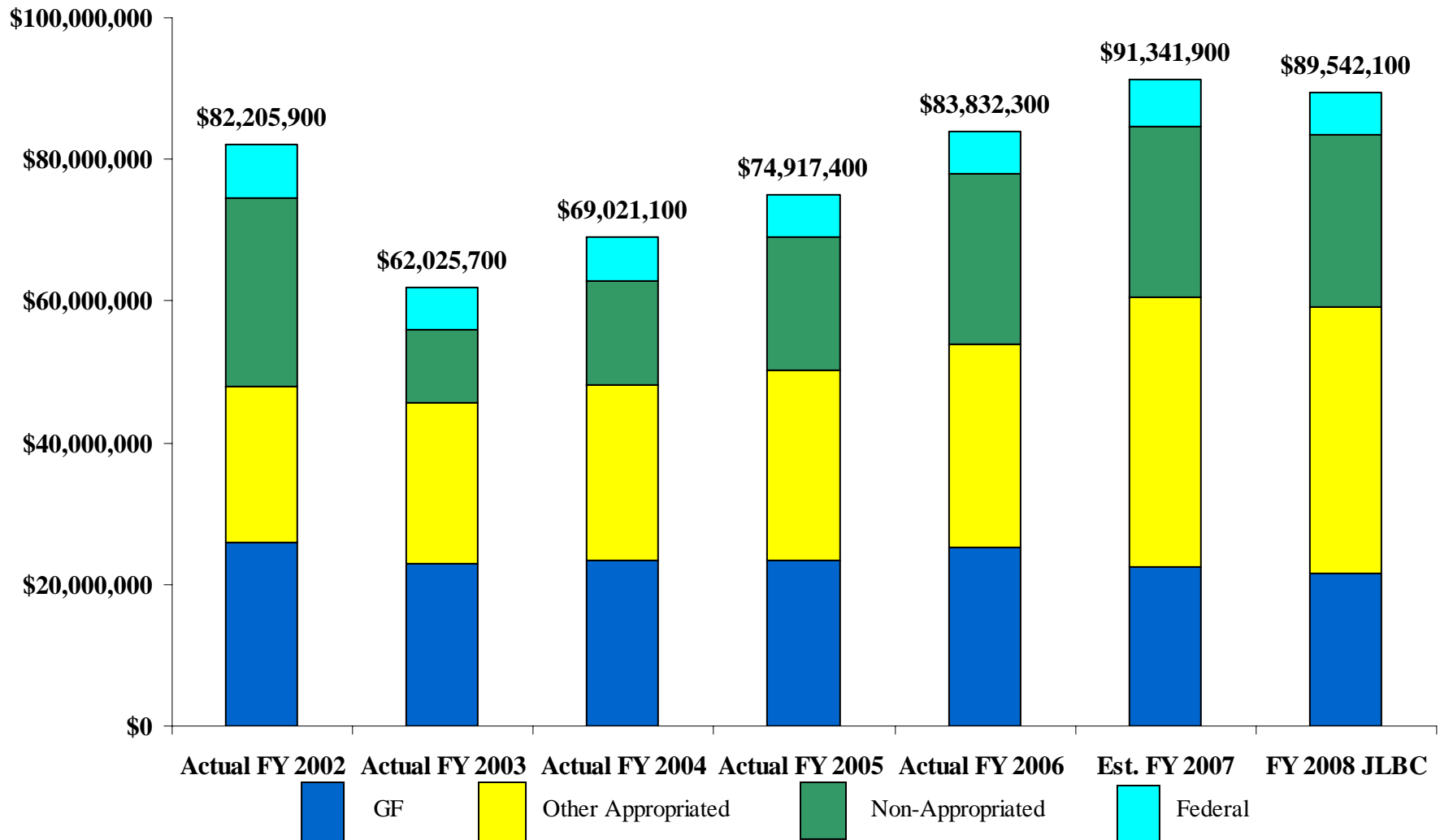
JLBC-Executive GF Comparison

FY 2008

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive^{1/}</u>
1. Case Management System	\$(1.0) M	\$(1.0) M
2. Pro Rata Charge Offset	300 K	0
3. One-Time Equipment	(102) K	0
4. Post-Conviction Appeals	0	215 K
5. Criminal Prosecution of Elder Abuse	0	92 K
6. Tobacco Enforcement	0	223 K
7. Risk Management/Rent	<u>(77) K</u>	<u>612 K</u>
Total	\$(0.9)M	\$124 K

^{1/} The Executive also includes \$134 K from the AG Legal Services Cost Allocation Fund for Antitrust Enforcement in FY 08.

**Attorney General - Department of Law
Total Funds FY 2002 - FY 2008**



Arizona Department of Corrections

**Revised
1/24/07**

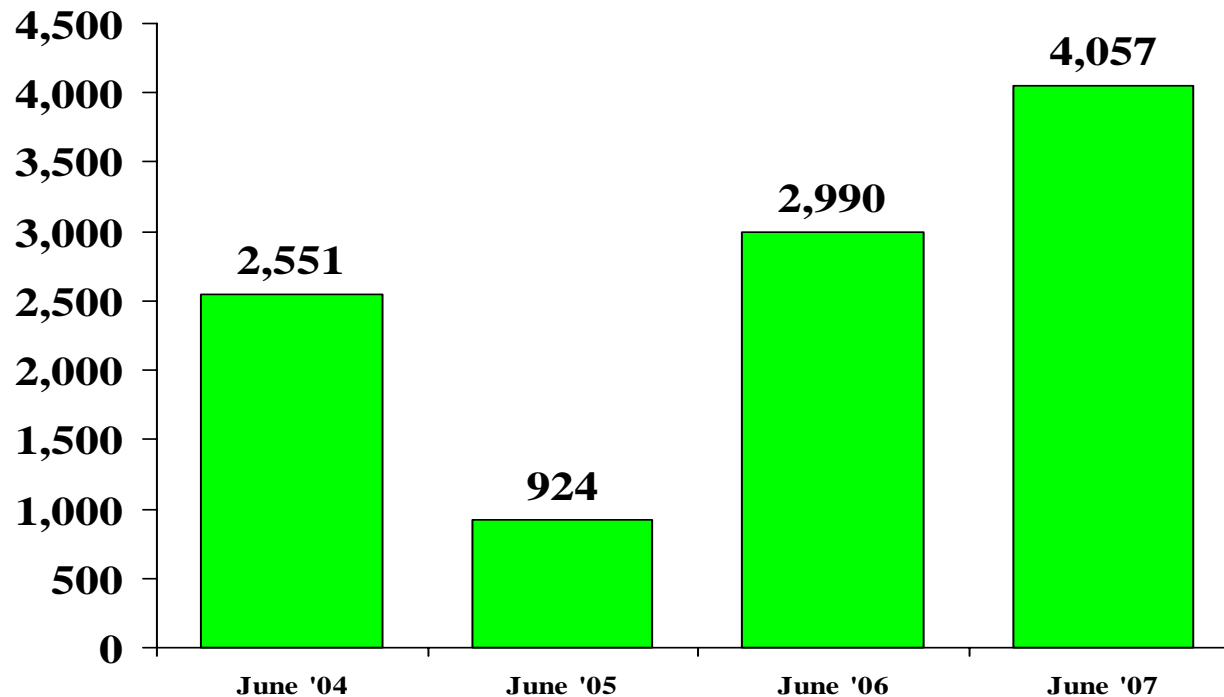
JLBC Baseline – Executive Comparison **Executive Funds \$14.2 M GF More in ‘07** **& \$87.2 M GF More in ‘08**

	<u>JLBC Baseline</u>	<u>Executive</u>
FY 07 Supplemental	\$0	\$14.2 M
<u>FY 08 Major Issues</u>		
Bed Additions	\$16.2 M	\$83.2 M
Operational Costs	\$3.8 M	\$13.8 M
One-Time Monies	<u>\$(10.6) M</u>	<u>\$0</u>
FY 08 GF Major Issues	\$9.4 M	\$97.0 M
Other Fund Changes	\$0	\$6.0 M

FY 07 Bed Shortfall

Without new beds, projected bed deficit at end of FY 2007 is (4,057)

- Bed Shortfall assumes a growth rate of 160 new inmates per month (1,920 per year)
- Inmate growth of 2,344 in last 12 months, compared to 965 in prior year
- Executive proposes to add 1,386 new temporary beds in '07 to help address problem



Executive Proposes \$14.2 M '07 Supplemental – \$4.7 M Due to Bed Shortfall

Bed Shortfall Costs

- Temporary Beds and Renovations
- Staff 4 New Security Posts
- Unfunded Inmate Population Growth

SUBTOTAL

Executive Cost

\$1.6 M

\$631 K

\$2.5 M

\$4.7 M

Other Supplemental Issues

- Utilities Cost Inflation
- Health Care Inflation
- Competitive Bid Preparation for 3,000 Bed RFP

\$5.0 M

\$3.8 M

\$600 K

TOTAL

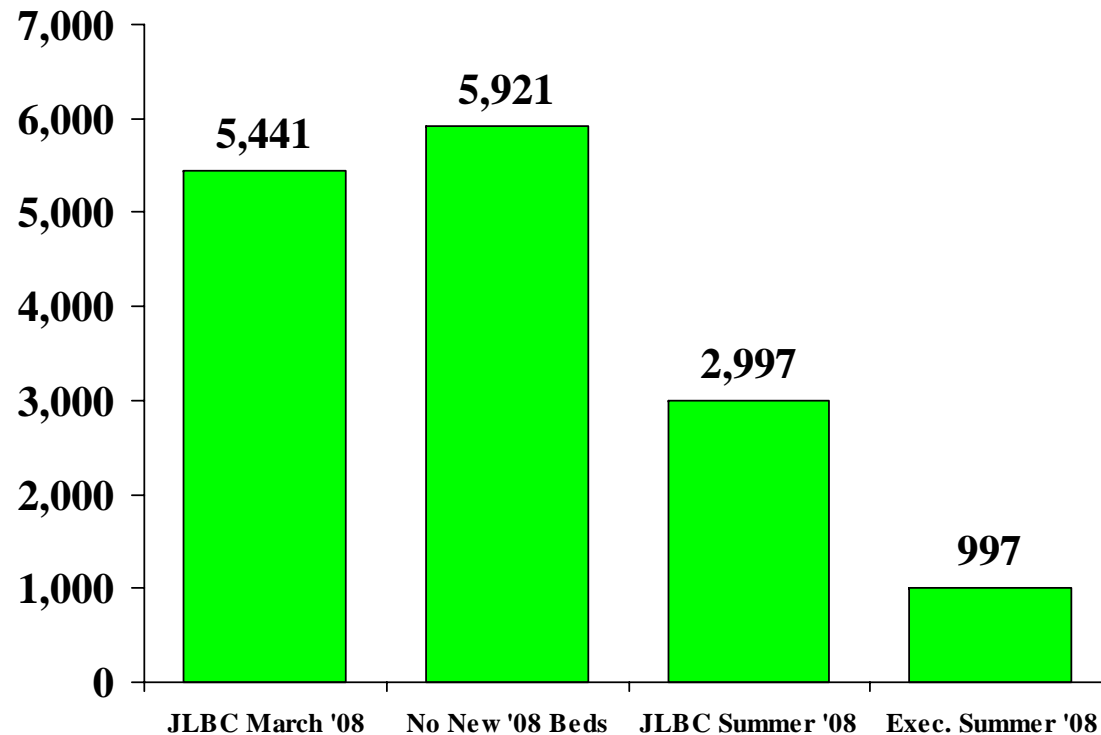
\$14.2 M

- Current year-to-date spending extrapolated to full year leaves department within budget
- Any new temporary beds would represent an unbudgeted cost

FY 08 Bed Shortfall

Projected bed deficit at end of FY 2008:

- If no new beds added, shortfall of (5,921)
- ADC does not count new '07 temporary beds toward the shortfall
- JLBC Baseline reduces shortfall to (2,977) in '08
- Executive reduces shortfall to (977) in '08



Without New Beds, Summer 2008 Shortfall is 5,900

<u>Solutions</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1) Approved Beds from '06 Session		
- Public or Private	3,000	3,000
2) Provisional Beds		
- Short-term Rented Beds	<u>0</u>	<u>2,000</u>
TOTAL NEW '08 BEDS	3,000	5,000

JLBC Baseline - Executive Comparison

Bed Related Issues

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. ADOA Contract for 3,000 Beds	\$11.2 M	\$11.2 M
2. Start-Up Costs For 3,000 Beds	\$0	\$10.0 M
3. Annualize 1,000 Private Beds	\$9.4 M	\$10.2 M
4. 2,000 New Provisional Beds	\$0	\$43.4 M
5. Per Diem Rate Increase to \$65	\$0	\$16.3 M
6. Inmate Population Growth	\$6.8 M	\$3.3 M
	<hr/>	<hr/>
Total – ADC without ADOA	\$16.2 M	\$83.2 M
Total – with ADOA	\$27.4 M	\$94.4 M

JLBC Baseline - Executive Comparison

Operational Issues

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Pay Adjustment for Sergeants, Lieutenants, and Captains	\$0	\$6.2 M
2. Staffing 4 New Security Post -- 2 posts each at the Douglas and Yuma facilities	\$0	\$912.5 K
3. Utilities Cost Inflation	\$0	\$ 2.7 M
4. 6% Health Care Inflation	\$3.8 M	\$ 4.0 M
Total – Operational	\$3.8 M	\$13.8 M

JLBC Baseline - Executive Comparison

One-Time Adjustments

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Van Pool Vehicle Replacement	\$(1.5) M	\$0
2. Rebase Retirement Rates (CORP)	\$(6.7) M	\$0
3. AZNet	\$(2.4) M	\$0
Total – One-Time	\$(10.6) M	\$0

JLBC Baseline - Executive Comparison

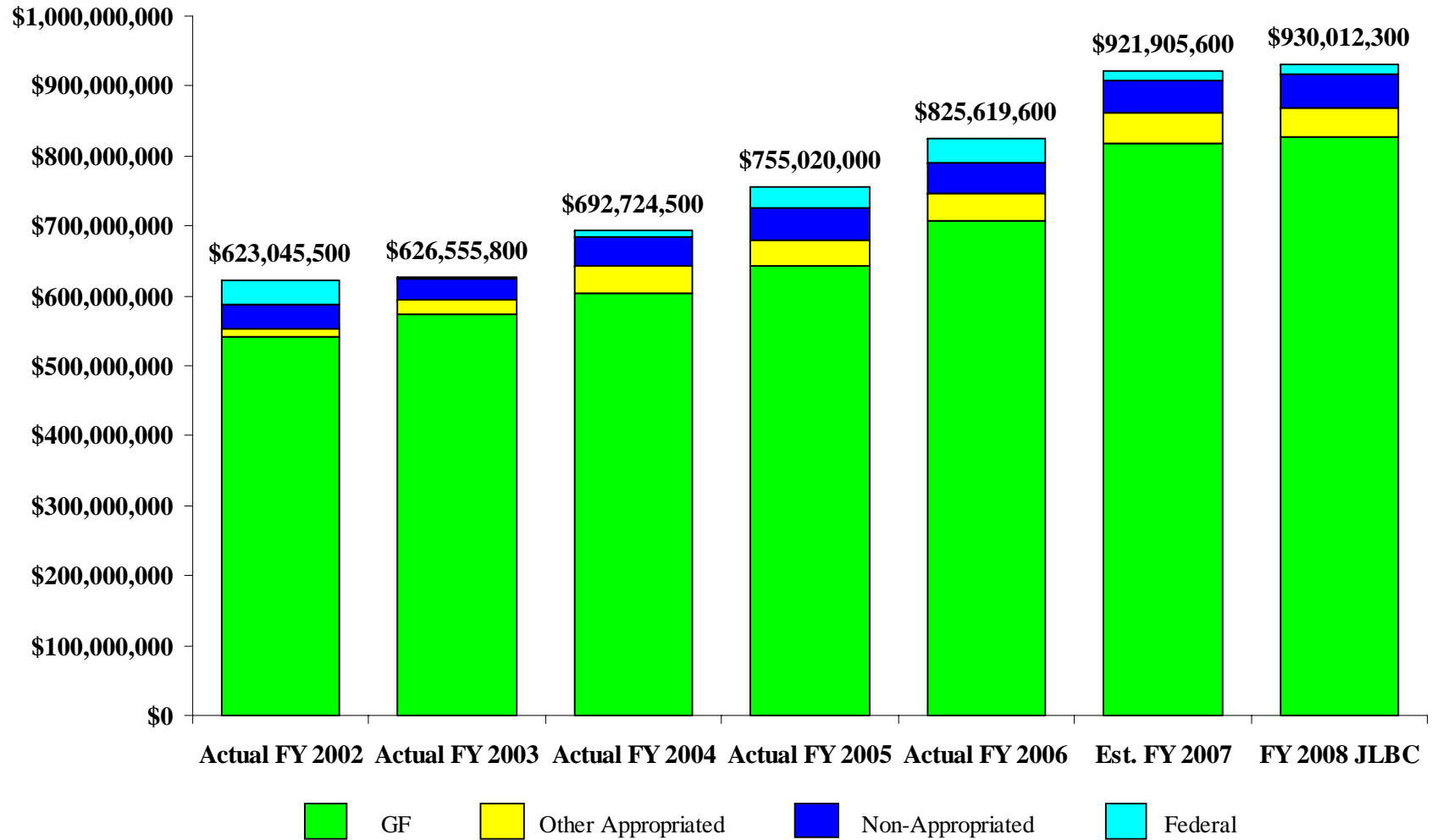
Other Fund Adjustments

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Inmate Transport Vehicle Replacement	\$0	\$4.0 M ^{1/}
2. State Prison Site Expansion Study	\$0	\$2.0 M ^{2/}
Total – Other Fund	\$0	\$6.0 M

^{1/} Prison Construction and Operations Fund

^{2/} Penitentiary Land Earnings Fund

Department of Corrections Total Funds FY 2002 - FY 2008



Five-Year Strategic Plan

A.R.S. § 35-122 requires agencies which submit annual budget requests to submit a 5-year strategic plan by January 1 yearly. Legislative appropriations committees are to review these plans annually. The Arizona Department of Corrections has not yet submitted its plan as required by A.R.S. § 35-122.

Department of Commerce

FY 08 Executive Policy Issues for Commerce

--\$8.8 M GF above FY 2007

Greater Arizona Development Authority (GADA)

\$5 M GF

- Serves as a bond guarantee to allow local authorities to finance infrastructure at lower rates
- \$5 M allows GADA to support \$150 M in bonding capacity; Exec. Would add \$5 M in FY 09
- GADA has a remaining corpus of \$6.6 M, or \$200 M in bonding capacity, which is expected to be committed in late FY 08

CEDC Fund – Fund Shift

\$1.3 M GF

- Currently \$1.3 M used for loans and grants and \$3 M for operating budget
- Shifts \$1.3 M and 7 FTE Positions from CEDC Fund to General Fund
- Executive proposal would double resources available for loans and grants

Economic Development Staff

\$1.2 M GF

- 10 FTEs to support and align economic development strategies
- Need further details to evaluate program, as most department personnel already engaged in various aspects of economic development

International Trade

\$1.2 M GF

- Funding to attract new foreign investment from countries such as Canada, Germany, and China, as well as increased funding for existing programs in the United Kingdom, Japan, and Mexico
- Department currently operates 4 offices in Taiwan, Japan, Mexico, and the United Kingdom at a cost of \$1.3 M

Tax Program Administration

\$148,400 GF

- 2 FTE Positions to implement and administer 4 recently enacted tax incentive programs

Arizona 21st Century Fund

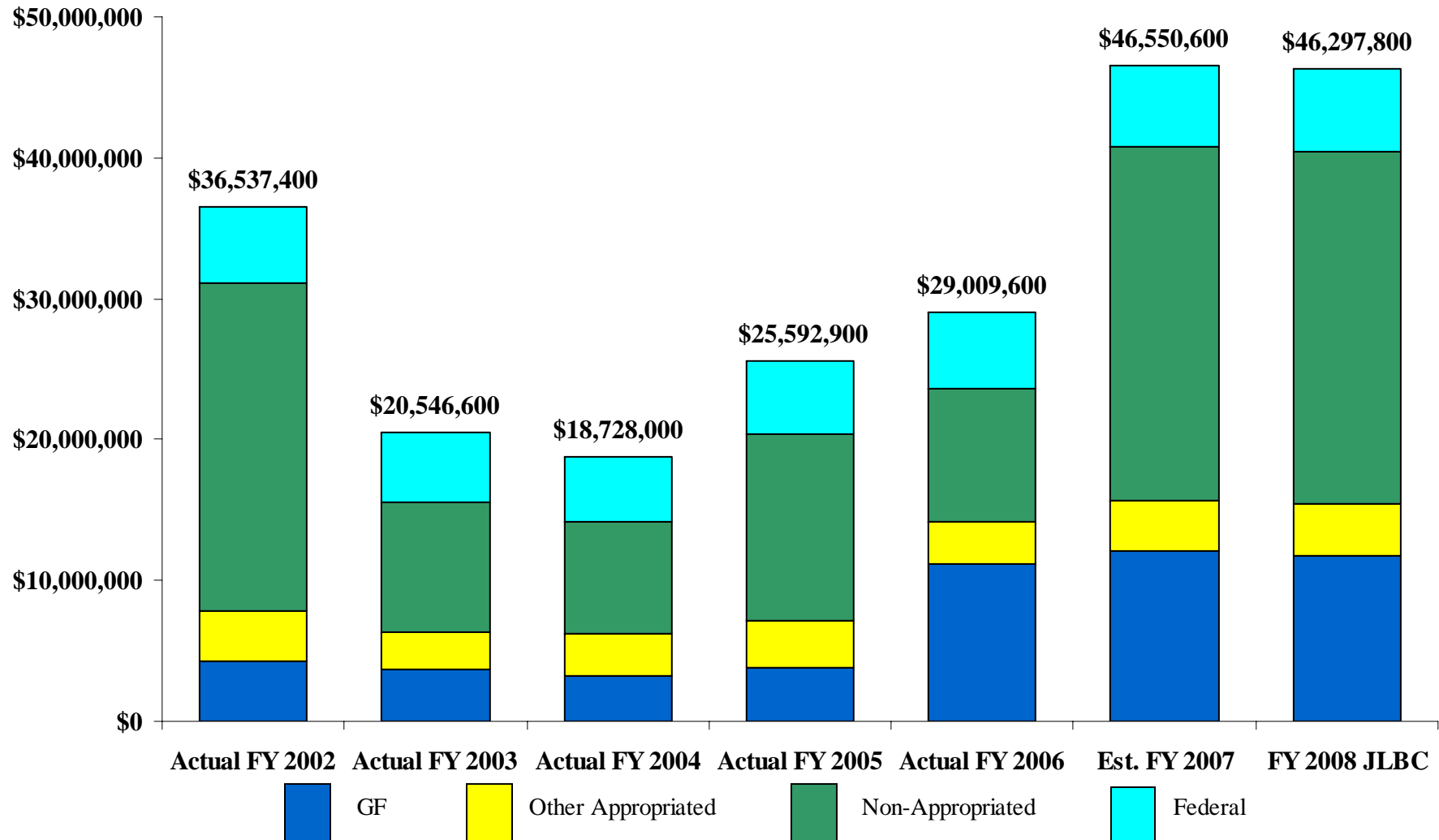
--Executive proposes additional \$35 M in FY 08

- Laws 2006, Chapter 334 established the Arizona 21st Century Fund to build medical, scientific, and engineering research programs
- State appropriated \$35 M to the fund in FY 07
 - Science Foundation Arizona was awarded the contract to administer the fund
- Executive proposes to deposit another \$35 M in FY 08
- \$35 M deposit not included in Commerce budget, although the agency does administer the 21st Century Fund contract

Science Foundation Arizona FY 07 Expenditure Plan

- **Strategic Research Groups** **\$18.0 M**
Investments in 10-15 research partnerships between industry and the universities to win major federal research center grants.
- **Competitive Advantage Awards** **\$5.0 M**
Grants of \$100,000 to \$400,000 to assist Arizona researchers in securing major grants for existing research from federal agencies.
- **Small Business Catalytic (SBC) Funding** **\$2.0 M**
Seed capital to develop technologies created at universities into spin-off companies, much like venture capital funding.
- **80 Graduate Student Fellowships** **\$4.0 M**
- **K-12 Student and Teacher Programs** **\$3.5 M**
- **Discretionary Initiatives to be Determined** **\$2.0 M**
- **Economic Studies** **\$0.5 M**

Department of Commerce **Total Funds FY 2002 - FY 2008**



Arizona Community Colleges

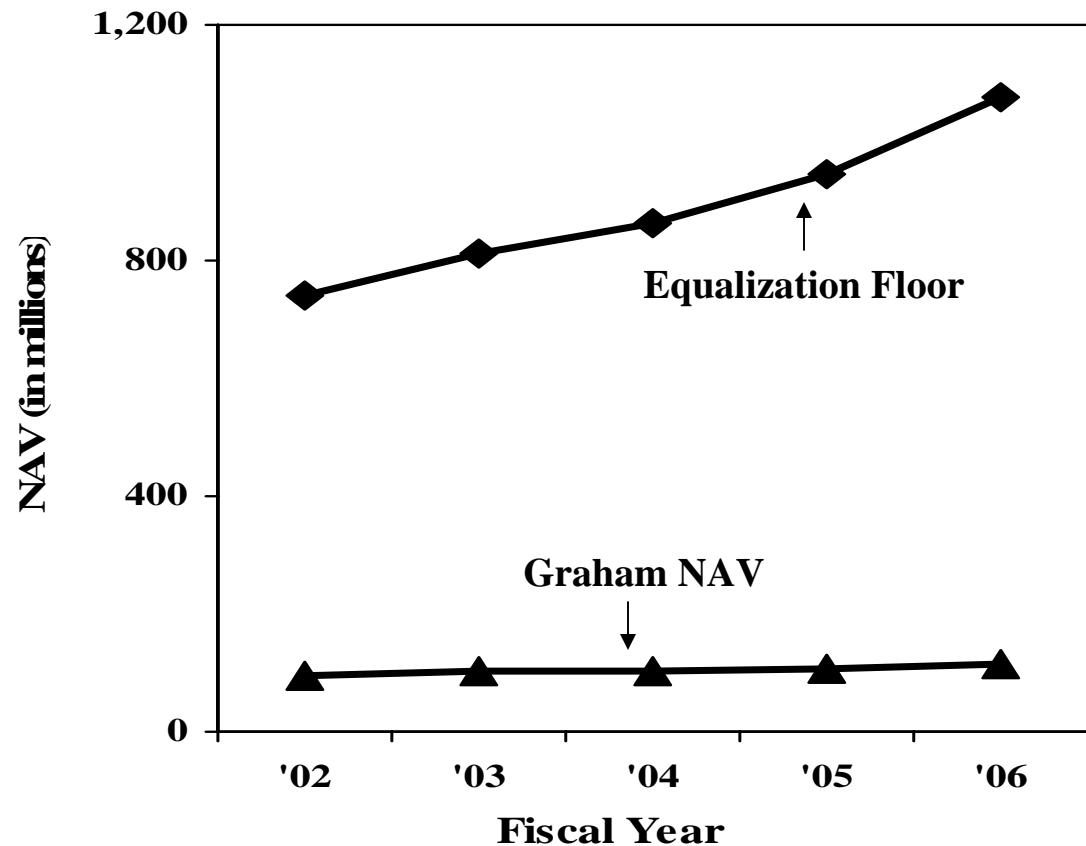
FY 2008 State Funding is \$165 Million

- No difference between JLBC Baseline and Executive

	<u>Change from FY 2007</u>
Operating State Aid	\$0.6 M
<ul style="list-style-type: none">• FTSE declined (1.3)% to 118,506• Formula reflects only FTSE growth (Declining districts held harmless)	
Capital Outlay State Aid	\$0.2 M
<ul style="list-style-type: none">• Less than 5,000 FTSE = \$210/FTSE• More than 5,000 FTSE = \$160/FTSE	
Equalization Aid	\$3.5 M
<ul style="list-style-type: none">• Funding for districts with low property tax valuation	
Tribal Colleges	\$0
<ul style="list-style-type: none">• Funding for capital and maintenance expenses• Generated from sales tax revenues• \$1.75 M annual appropriation	
One-Time Funding	\$(4.0) M
<ul style="list-style-type: none">• Training Facilities• Rural County Reimbursement Subsidy	

Equalization Driven by Rural County Property Valuation Growth

- Equalization floor grew by \$130 M, or 13.7% in '06.
- Graham NAV grew by \$9 M, or 8.4% (Cochise, Navajo, Yuma/La Paz also qualify).
- Dollar gap below floor generates Equalization Aid - Up \$3.5 M to \$23.5 M in '08.



NAV= Net Assessed Value (Property Value)

Rural County Reimbursement

- Charge to counties that are not part of an established community college district
 - Pays for the cost of enrolling students from these county's in a community college
 - Formula based on a net operating cost per FTSE
- FY 2007 budget provided a one-time General Fund subsidy of \$1 M to these counties in order to partially offset their costs
 - This subsidy reflected districts' property tax revenues

FY 2007 Rural County Reimbursement Subsidy			
<u>Counties</u>	<u>Existing Formula</u>	<u>State Subsidy</u>	<u>Net County Cost</u>
Apache	\$1.7 M	\$0.5 M	\$1.2 M
Greenlee	\$0.6 M	\$0.4 M	\$0.2 M
Santa Cruz	<u>\$0.9 M</u>	<u>\$0.1 M</u>	<u>\$0.8 M</u>
Total	\$3.2 M	\$1.0 M	\$2.2 M

Total Operating Funds FY 2008

(Excludes Bond Proceeds and Fund Balance)

Sources of Funding:

- **State Aid (11%)**
- **Tuition and Fees (22%)**
- **Property Taxes (41%)**
- **Grants (26%)**

District	Total Funds
Cochise	\$ 51,745,200
Coconino	21,803,300
Gila	3,861,400
Graham	38,477,000
Maricopa	959,233,800
Mohave	33,838,900
Navajo	30,523,200
Pima	189,001,400
Pinal	62,423,000
Yavapai	61,534,400
Yuma/La Paz	<u>51,706,300</u>
Total	\$ 1,504,147,900

Arizona Community College Tuition and Fees

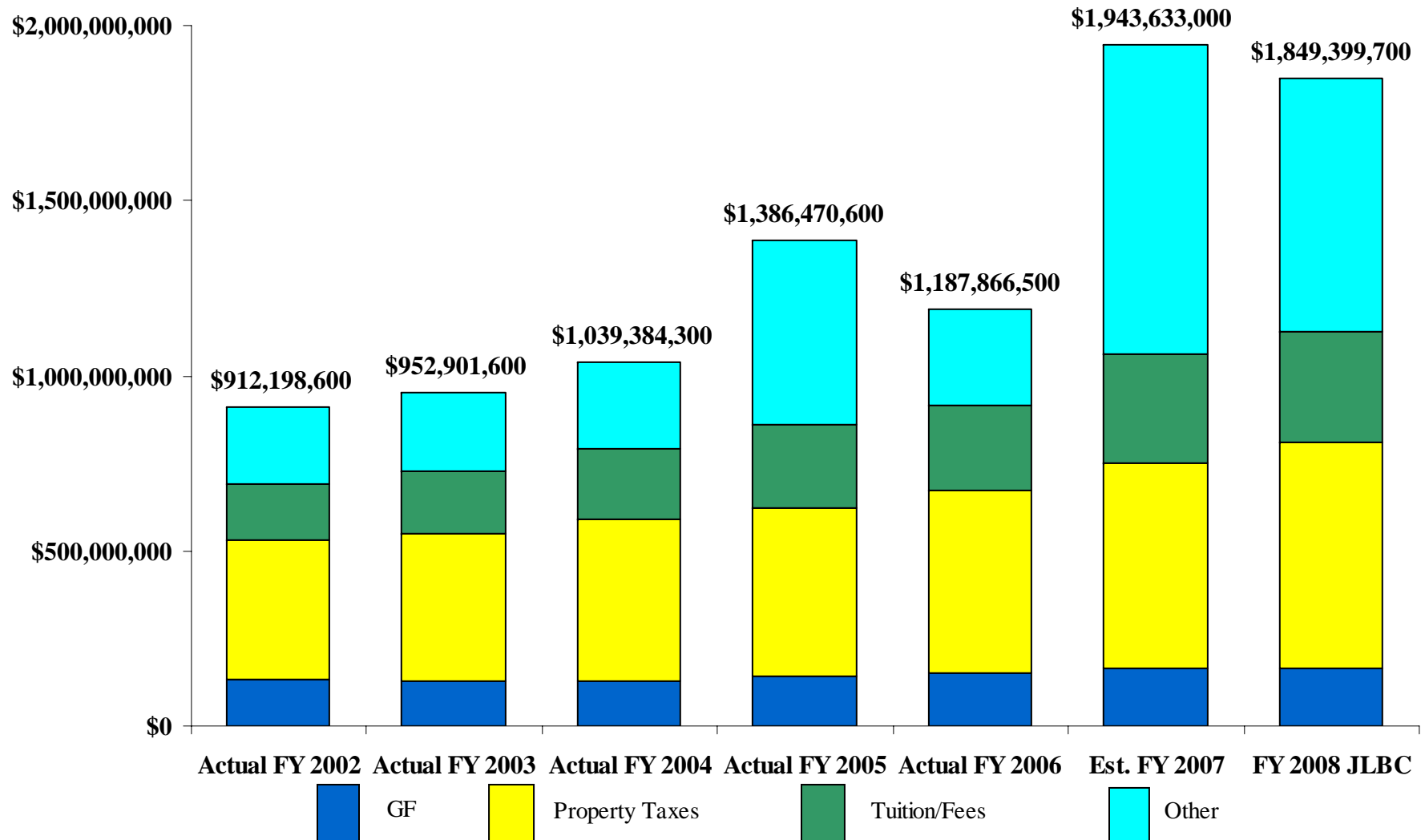
- Tuition and Fees account for approximately 22% of total revenues
- From FY 2006 to FY 2007 tuition increased 7%
- In the past 5 years tuition has grown 52%

Community College Resident Tuition & Fees			
	<u>FY 2006</u>	<u>FY 2007</u>	<u>% Change</u>
District			
Cochise	\$1,350	\$1,410	4%
Coconino	1,344	1,464	9%
Gila ^{1/}	--	--	--
Graham	1,128	1,120	-1%
Maricopa	1,800	1,950	8%
Mohave	1,380	1,580	14%
Navajo	1,008	960	-5%
Pima	1,395	1,475	6%
Pinal	1,332	1,422	7%
Yavapai	1,320	1,350	2%
Yuma/La Paz	<u>1,140</u>	<u>1,200</u>	5%
Weighted Avg.	\$1,605	\$1,722	7%
^{1/} Gila Provisional Community College contracts with Graham county's Eastern Arizona College (EAC) in order to provide degree programs. Therefore, Gila's tuition and fee amounts are the same as Graham's.			

Audit Process at the Community Colleges

- Arizona Statute requires external audits of all financial statements
 - Includes enrollment (FTSE) counts, expenditure limits
- Only 2 districts have internal audit teams
 - Maricopa and Pima Community College Districts
 - These audits generally focus on the district's internal policies (i.e. payroll, class rosters)
 - At Maricopa there is an Audit Finance Committee which assists with the overall audit plan for the district

Arizona Community Colleges Total Funds FY 2002 - FY 2008



Corporation Commission

Arizona Corporation Commission

4 Principal Functions

Corporations Filings

- Funded from General Fund and Corporate Filing Fees
- Provides public access to corporate annual reports, articles of incorporation for businesses, and corporate status change documents

Securities Regulation

- Funded from fees for the registration of securities, brokers, investment advisers, and representatives

Utilities Regulation

- Funded from Utility Assessments
- Oversees public service corporations and assists commissioners in establishing public utility rates through research, legal preparation, and hearings

Railroad and Pipeline Safety

- Funded from Utility Assessments, the General Fund, and Federal Funds
- Inspects gas pipelines and oversees the operations and maintenance of railroads

JLBC Baseline – Executive Comparison of Major Issues

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Division Director	0	\$121,900 OF
2. Legal Staffing	0	\$100,400 OF
3. Administrative Law Staffing	\$109,300 OF	\$97,400 OF
4. Commissioner Expenses	\$100,000 GF	0
5. Corporate Filings: IT Update	\$450,300 OF	\$687,500 OF
6. Master Meter Equipment	\$55,400 OF	\$55,400 OF
7. One-Time Equipment	<u>0</u>	<u>\$(48,700) OF</u>
TOTAL	\$715,000	\$1,013,900

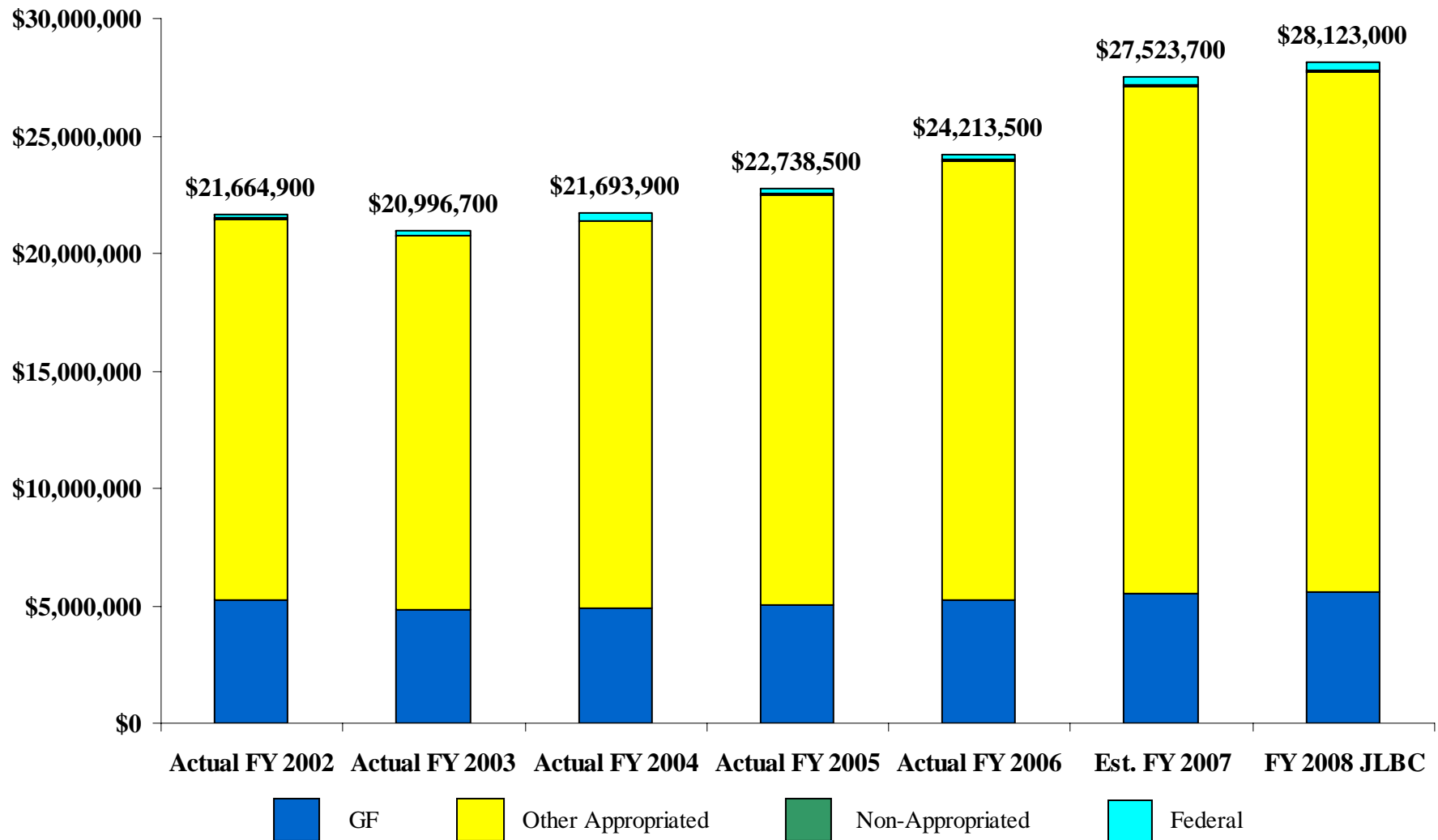
--Commission also requesting \$235,100 OF for Attorney Salary Parity

Corporate Filings Processing Times

- Statute requires corporate filings services to be processed within an established timeframe
 - Regular Filings are to be processed within 30 business days; fee revenues are deposited in the General Fund
 - Expedited filings are to be processed within 5 business days; fee revenues are deposited in the Public Access Fund
- Same Day/Next Day services cannot be offered until all expedited and regular filings are processed in statutory 5/30 day timeframe

<u>Service</u>	<u>Max. Processing Times</u>	<u>Status</u>
Regular	30 Business Days	40 days average processing times for all services
Expedited	5 Business Days	4 Days average processing time for all services
Same Day/Next Day	1 Business Day	Not yet implemented

**Corporation Commission
Total Funds FY 2002 - FY 2008**



AZ State Schools for the Deaf and the Blind

ASDB Currently Has 5 Programs Serving 2,300 Students

<u>Program</u>	<u>Students</u>
Phoenix Campus	272
Tucson Campus	260
Preschool Program	176
Cooperative Program	1,231 <u>319</u>
Outreach Program	2,258
Total	

JLBC Baseline

Changes from FY 2007

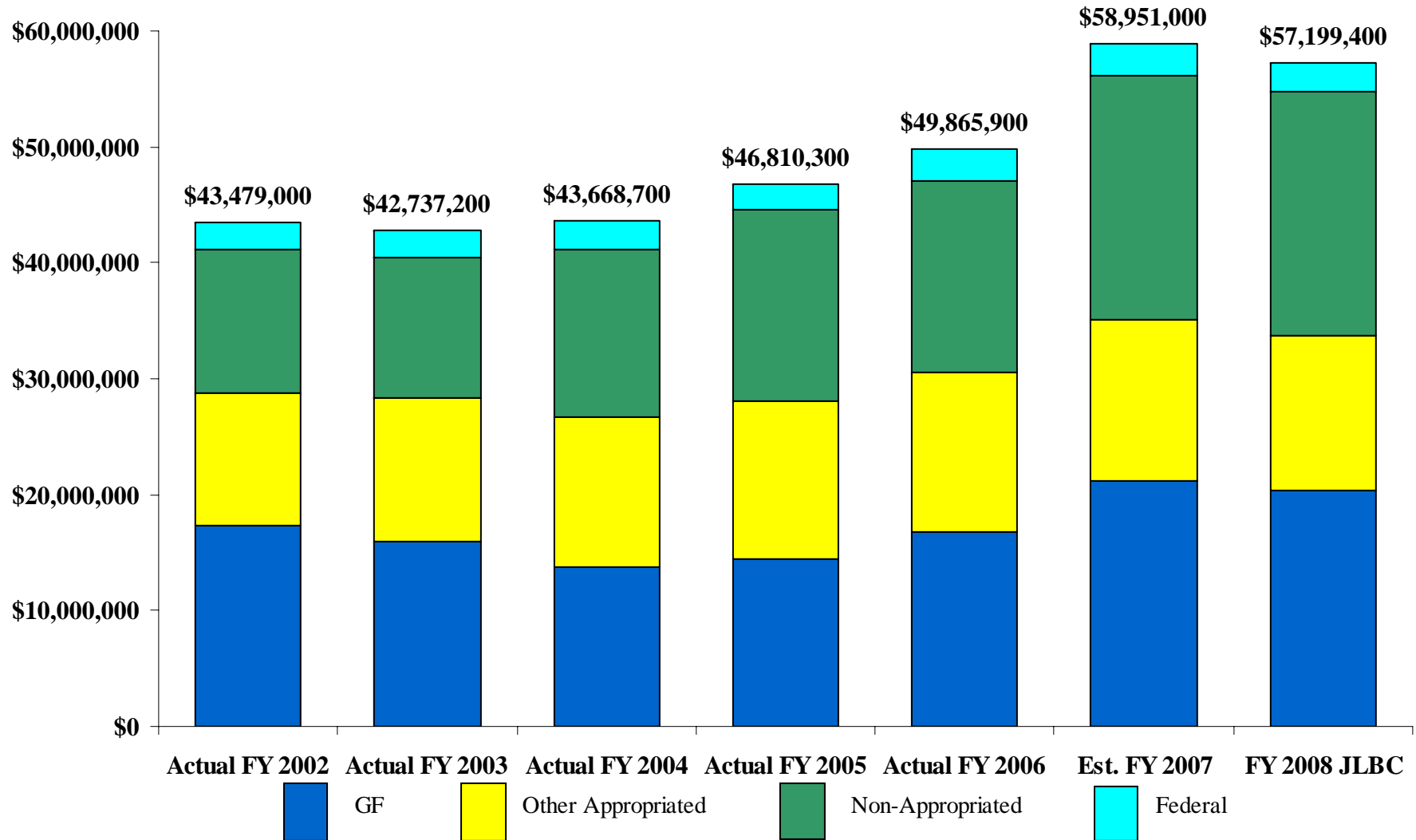
<u>Item</u>	General Fund		Other Funds	
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2009</u>
Foundation for Blind Child Preschool Program	\$-	\$-	\$(1.1) M	\$(1.1) M
Voucher Fund Adjustment	-	-	500,700	878,500
One-time AZNet	(195,500)	(195,500)	-	-
One-time Assistive Technology	(110,000)	(110,000)	-	-
One-time Air Conditioners	(300,000)	(300,000)	-	-
School Bus Replacement *	(220,000)	(112,000)	-	-
* Leaves \$630,000 in FY 08 for 7 new buses and \$738,000 in FY 09 for 8 new buses				

Executive Amounts Above JLBC Baseline

<u>Item</u>	<u>FY 2008</u>	<u>FY 2009</u>
Transportation Fuel (GF)	\$100,900	\$100,900
Dorm Furniture (GF)	100,900	-
Assistive Technology (GF) *	119,400	104,400

* JLBC Baseline funds at a total of \$143,100 in FY 08, while Executive Funds at \$262,500

Arizona State Schools For the Deaf and the Blind Total Funds FY 2002 - FY 2008

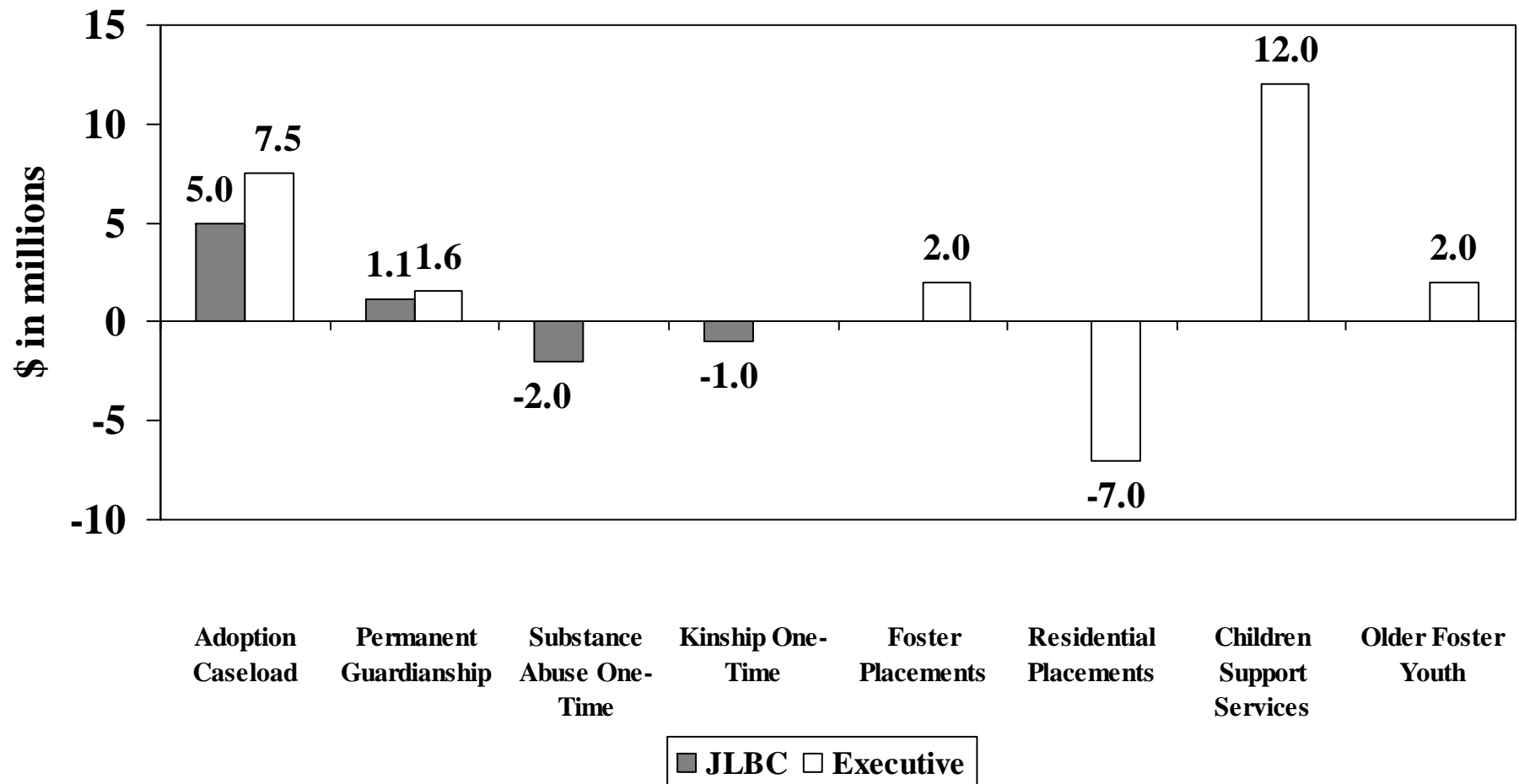


Department of Economic Security

The '08 JLBC Baseline adds \$25 M GF for caseloads while the Executive adds \$69 M GF for growth and program expansions

(\$ in millions)		
	<u>JLBC Baseline</u>	<u>Executive Proposed</u>
FY 07 Supplemental	--	\$19.7
<u>FY 08</u>		
CPS Growth and Programs	\$3.1	\$18.0
Federal Deficit Reduction Act Backfill	--	\$16.7
TANF and General Assistance Caseloads	\$(5.0)	\$(5.2)
Developmentally Disabled Caseload	\$28.3	\$26.7
Aging and Community Services	--	\$6.6
Other Issues	<u>\$(1.5)</u>	<u>\$6.1</u>
Total	\$24.9	\$68.9

JLBC Baseline adds a net of \$3 M GF for growth in CPS permanent placements. The Executive recommends \$18 M GF for growth and program expansions



The Executive recommends \$16.7 M to address Federal Deficit Reduction Act impacts.

(\$ in millions)

	<u>FY 07</u>	<u>FY 08</u>
• There will no longer be federal reimbursement of caseworker and other administrative costs for unlicensed relative placements.	\$17.0	\$17.0
• DES currently estimates that with increased licensing and other strategies, they could cut backfill cost by \$3M.	(3.0)	(3.5)
–Mandatory licensing could generate additional savings, but deter some relative placements		
• A one-time FY 07 cost for ineligible FY 06 payments.	<u>5.7</u>	<u>--</u>
	\$19.7	\$13.5

The DRA also made changes to Child Support Enforcement and TANF work participation

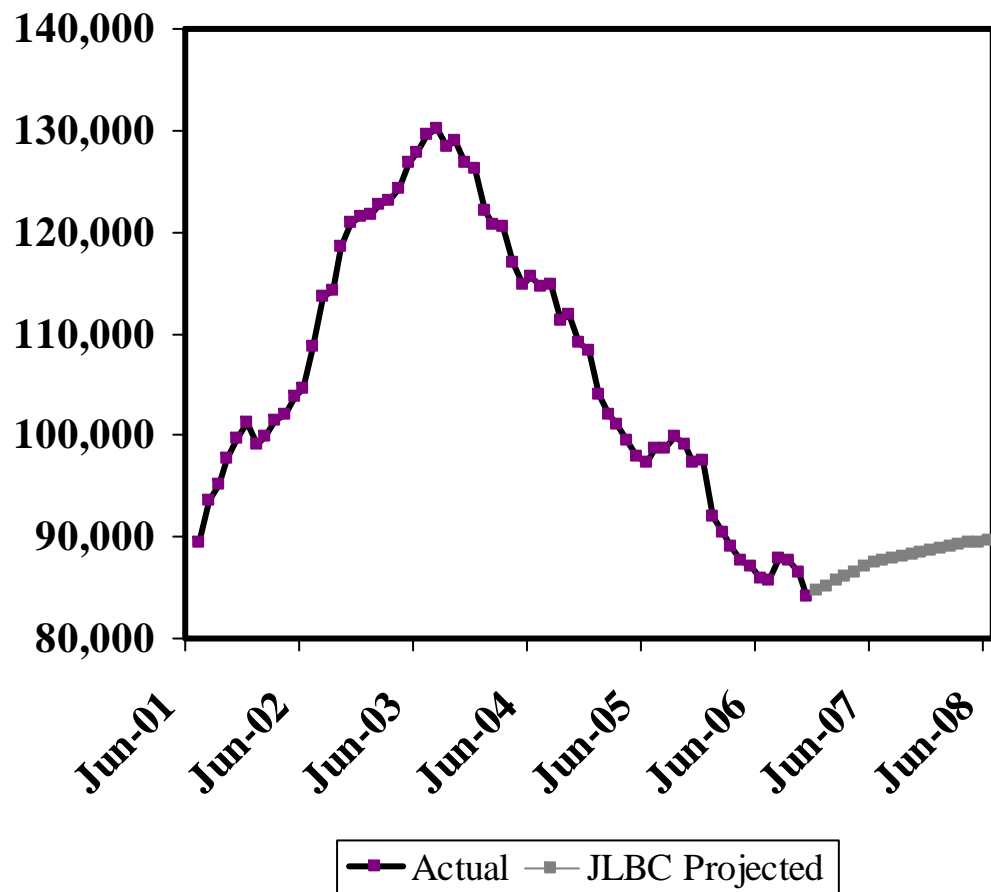
(\$ in millions)

FY 07 FY 08

- Executive replaces loss of Federal Child Support Incentive Payments as a source of state matching to draw down more federal funds. -- \$3.2
- No funding added to address TANF work participation rates, which will effectively increase from 15% to 40-45%. -- --
 - Failure to meet requirement could result penalty of \$10.1 M starting as early as FY 08, but is at the discretion of the Federal government.
 - A corrective action plan is more likely unless there is continued non-compliance.

Both the JLBC and Executive take caseload savings of about \$(5)M GF for TANF and General Assistance.

- JLBC assumes 89K TANF recipients while the Executive funds 88K at a slightly higher benefit.
- TANF caseload declined (12)% in FY 06. General Assistance caseload declined (29)%.
- The TANF Block Grant has a balance of less than \$1 M in FY 08, and ongoing expenditures exceed revenues by \$6 M.



The JLBC Baseline includes \$28.3 M GF in DD Long Term Care formula growth

- Executive adds \$26.7M

- DD Long Term Care caseload projected to grow 5.7%
 - Funds caseload of 20,150 by June '08 and associated case manager services
 - The Executive projects caseload at 19,950, or 5.4% growth
- JLBC Baseline includes the following adjustments:
 - 6.0% for medical inflation and utilization
 - 3.2% for provider rate increase as recommended by Sept. '06 adequacy study
 - Holds administrative costs constant at FY 2005 level
- Across all categories, JLBC Baseline increases result in average capitation rate growth of 3.5%
 - The Executive projects 3.0% growth
- Executive continues \$200K OF for autism pilot and \$1M GF funding from dental pilot

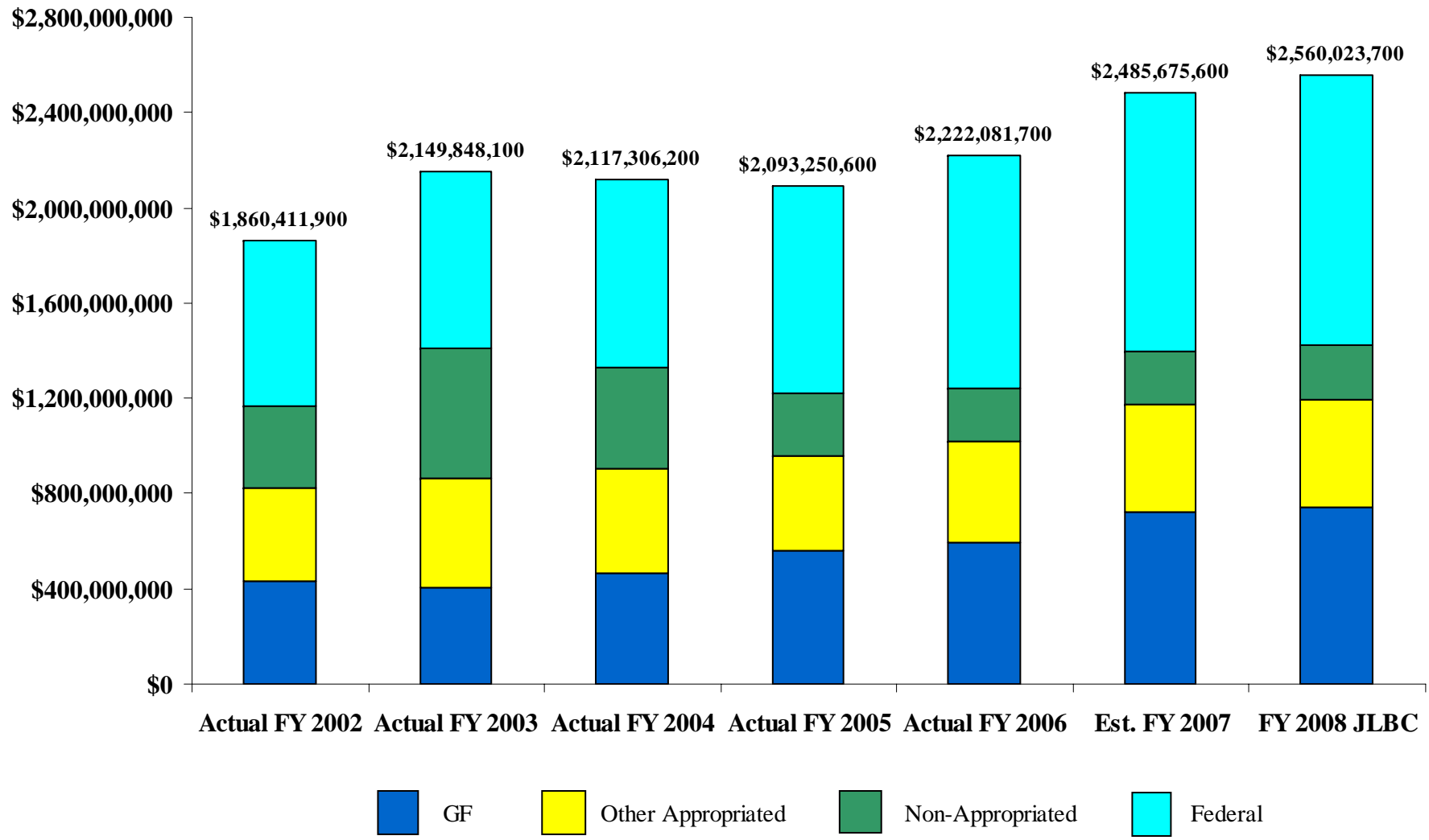
The Executive adds \$6.6 M GF in Aging and Community Services Programs

	<u>\$ in M</u>
Domestic Violence Funding	\$ 3.3
Senior Services	2.7
Food Bank Equipment	0.5
Hopi Assisted Living Center	<u>0.1</u>
Total	\$ 6.6

The Executive also includes \$6.1 million GF and \$3.4 million OF for other issues.

- \$4.4 M GF for IT related issues, including a 5 year, \$25 M GF case management system.
- \$1.2 M GF for cost related to the new Electronic Benefits Transactions contract.
- \$3.4 M in Federal Reed Act monies to offset decreased federal funds for the Unemployment Insurance program.
- \$0.5 M GF for technical changes, while JLBC includes a \$(0.4) M GF decrease.
- Also retains \$1.1 M GF in one-time AzNet funding, which the JLBC removes.

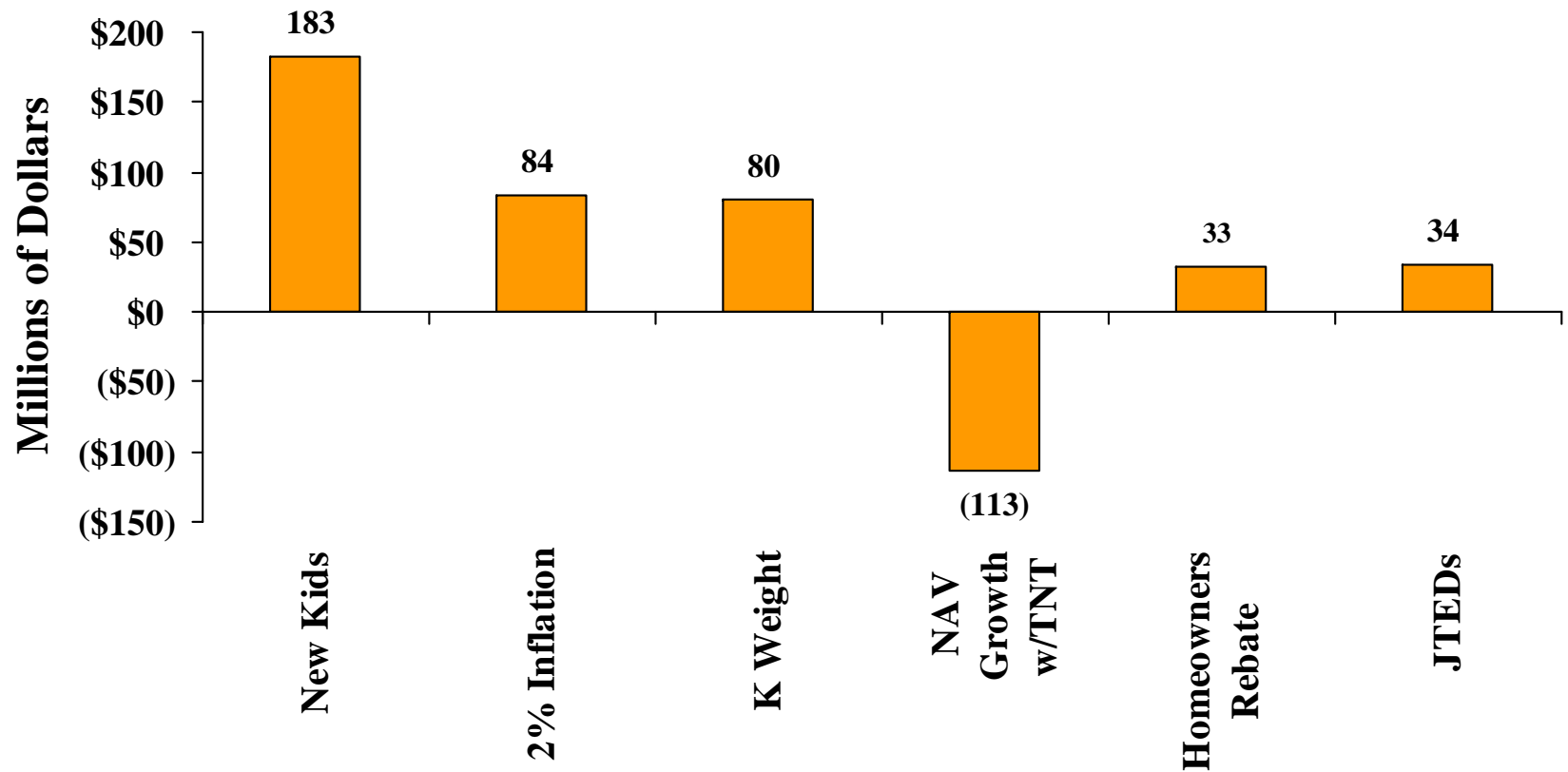
**Department of Economic Security
Total Funds FY 2002 - FY 2008**



Department of Education

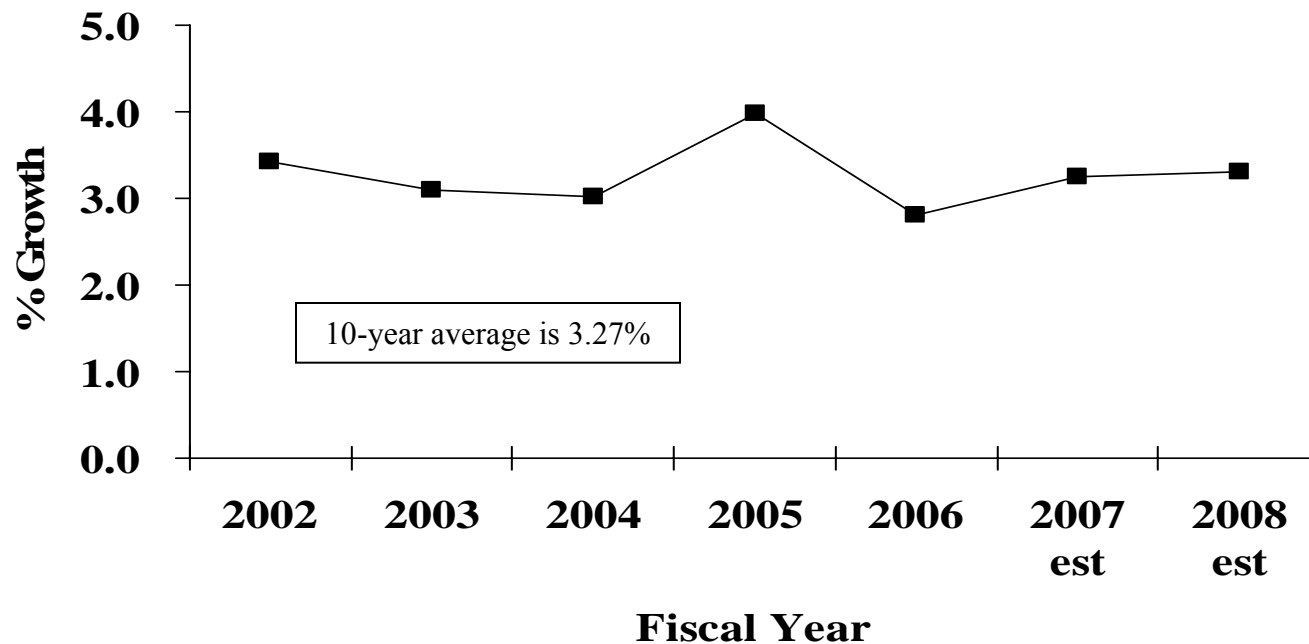
JLBC Baseline Adds \$301 M GF in FY 08 for Statutory Formulas

(\$268 M for Basic State Aid + \$33 M for Homeowners' Rebate)



JLBC Baseline Has 3.3% Enrollment Growth in '08 Under Consensus Forecast

--Both JLBC Staff and UA Econometric Model Project 3.3% Growth



Small Percentage Changes in Enrollment Growth Greatly Affect Costs

- Basic State Aid formula now costs about \$5.8 billion
- State share is about \$4.0 billion
- State pays all cost “at the margin”
- 1,070,000 students now in public schools (FY 08 est)
- 0.5% forecast error would cost about \$29 million
- Enrollment based on 100 day count – but districts have 3 years to finalize number
- ADE’s FY 07 supplemental estimate was \$(10 M) in October, now projects \$10 M surplus

JLBC Baseline Increases Kindergarten Group B Weight by \$80 M

- Laws 2006, Chapter 353 established K weight of 0.835 for FY 07 and 1.352 for FY 08
- FY 08 weight increase will cost \$80 M
- Higher weight will generate \$200 M total for FY 08
- \$200 M / 86,000 Kindergartners \approx \$2,300 per pupil
- Monies are allocated as part of Basic State Aid “lump sum”
- A.R.S. §15-901.02 authorizes schools to offer voluntary full-day Kindergarten

JLBC Baseline Assumes \$34 M Increase to Fully Fund JTED Formula

--Laws 2006, Chapter 353 did not extend current caps beyond '07

<u>Item</u>	<u>\$ (millions)</u>
• Eliminate current deduct to formula funding (based on FY 06 ADM)	\$14
• Enrollment Growth for FY 07 & FY 08	\$5
• Additional Satellite Conversions	\$3
• New Pima JTED	\$12
• Increased Charter Participation	\$6
• Stricter Course Requirements	<u>\$(6)</u>
• Total	\$34

Executive Includes \$69 M to Increase Teacher Salaries

- \$25 M to bring 10,000 teachers up to \$33K
- \$25 M to increase base salary for teachers currently making \$33K+
- \$19 M to offset increase in A.S.R.S. retirement contribution rate
- Unclear how minimum salary monies would be allocated to specific teachers and districts in FY08 and beyond

Executive Adds Another \$20 M for Teacher Pay / Development Issues

Math & Science Initiative

- \$12.5 M includes \$10 M to increase Math/Science teacher pay
- Remaining \$2.5 M would be for innovative program grants

Master Teacher

- \$4 M increase would mostly fund release time for mentors
- Mentors also can qualify for \$5,000 stipend

Performance Pay Planning

- \$4 M to plan statewide system for professional development and performance pay

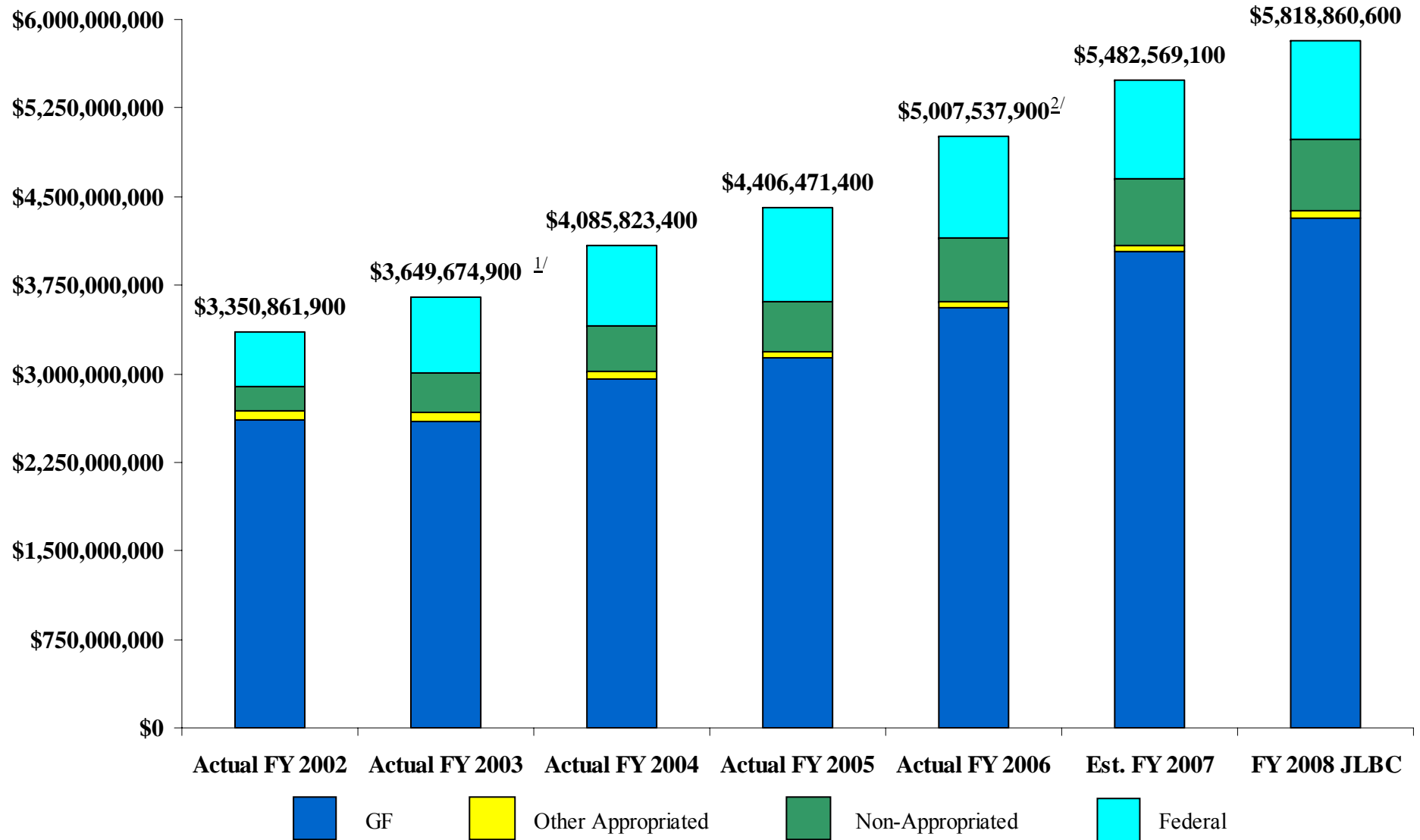
Executive Initiatives Would Cost \$98.5 M Total

<u>Item</u>	<u>Cost (\$ millions)</u>
• Minimum Teacher Salary	50.0
• Retirement Increase	18.8
• Math & Science Initiative	12.5
• Master Teacher	4.0
• Performance Pay Plan	4.0
• End of Course Testing	8.5
• IT Security	0.5
• AZ Reads Audit	<u>0.2</u>
	\$98.5

JLBC Baseline and Executive Both Eliminate One-Time FY 07 Funding

<u>Program</u>	<u>\$ (millions) GF</u>
• E-Learning	(3.0)
• Information Technology	(2.5)
• Teach America	(2.0)
• Physical Education Pilot	<u>(0.6)</u>
	\$(8.1)

Department of Education **Total Funds FY 2002 - FY 2008**



Department of Environmental Quality

Department of Environmental Quality

- Air Quality Programs
- Water Quality Programs
- Waste Programs
- WIFA

JLBC Baseline – Executive FY 08 Comparison Air Quality Programs

	<i>Changes from FY 07</i>	
	<u>JLBC Baseline</u>	<u>Executive</u>
Emergency Air Response Personnel (General Fund)	\$0	\$245,300
Emissions Inspection Program Growth (Emissions Inspection Fund)	1,500,000	0
Air Quality Compliance & Enforcement (Air Quality Fund)	<u>0</u>	<u>214,800</u>
Total – Other Funds	\$1,500,000	\$214,800
Total – General Fund	0	245,300

JLBC Baseline – Executive FY 08 Comparison Waste Programs

	<i>Changes from FY 07</i>	
	<u>JLBC Baseline</u>	<u>Executive</u>
Ports Of Entry Waste Inspectors (General Fund)	0	271,300
Colorado River Remediation (General Fund)	0	155,100
Compliance & Recycling Personnel (Recycling Fund)	<u>0</u>	<u>\$150,200</u>
Total – Other Funds	\$0	\$150,200
Total – General Fund	0	426,400

JLBC Baseline – Executive FY 08 Comparison Water Quality Programs

	<i>Changes from FY 07</i>	
	<u>JLBC Baseline</u>	<u>Executive</u>
Expedited Permit Program <i>(Water Quality Fee Fund)</i>	\$600,000	\$0
One-time Water Quality Permitting <i>(General Fund)</i>	(200,000)	0
<i>(Water Quality Fee Fund)</i>	(200,000)	0
Water Quality Permit Staff <i>(General Fund)</i>		863,800
<i>(Water Quality Fee Fund)</i>		710,900
Aquifer Protection Permit Staff <i>(Water Quality Fee Fund)</i>	<u>0</u>	<u>547,800</u>
Total – Other Funds	\$400,000	\$1,258,700
Total – General Fund	(200,000)	863,800

JLBC Baseline – Executive FY 08 Comparison Water Infrastructure Finance Authority

	<i>Changes from FY 07</i>	
	<u><i>JLBC Baseline</i></u>	<u><i>Executive</i></u>
One-time Small Rural Water Systems <i>(General Fund)</i>	<u>\$(750,000)</u>	<u>\$0</u>
Total – Other Funds	\$0	\$0
Total – General Fund	(750,000)	0

JLBC Baseline – Executive GF Comparison

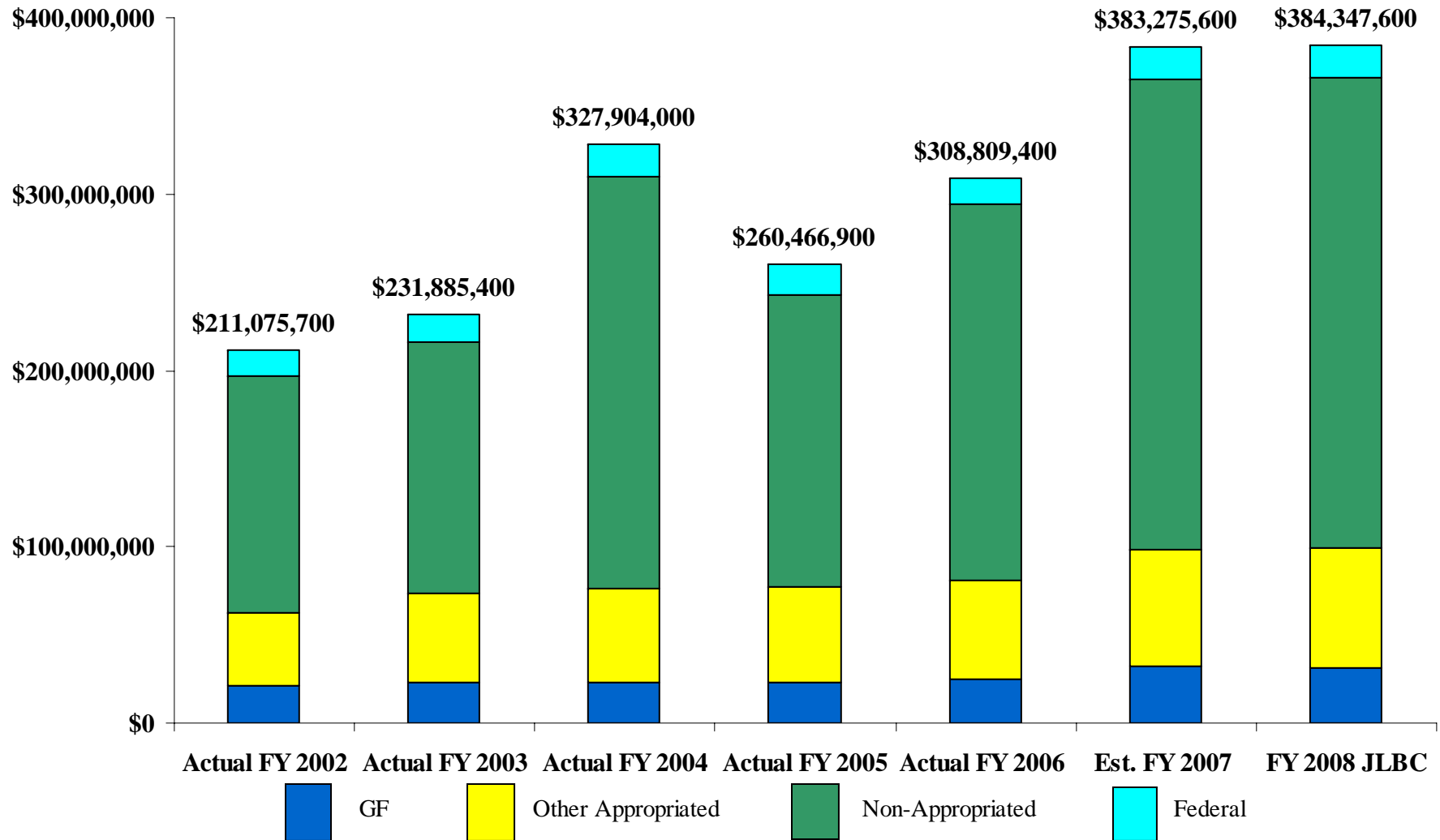
Executive Funds \$2.5 M GF More in '08

Summary of All General Fund Issues

Changes from FY 07

	<u>JLBC Baseline</u>	<u>Executive</u>
Emergency Air Response	\$0	\$245,300
Hazardous Waste	0	271,300
Inspections		
Colorado River	0	155,100
Remediation		
One-time Water Quality	(200,000)	863,800
Permitting		
One-time Small Water	(750,000)	0
Systems		
Technical Adjustments	<u>0</u>	<u>26,900</u>
Change from FY 2007	\$(950,000)	\$1,562,400

**Department of Environmental Quality
Total Funds FY 2002 - FY 2008**



Department of Gaming

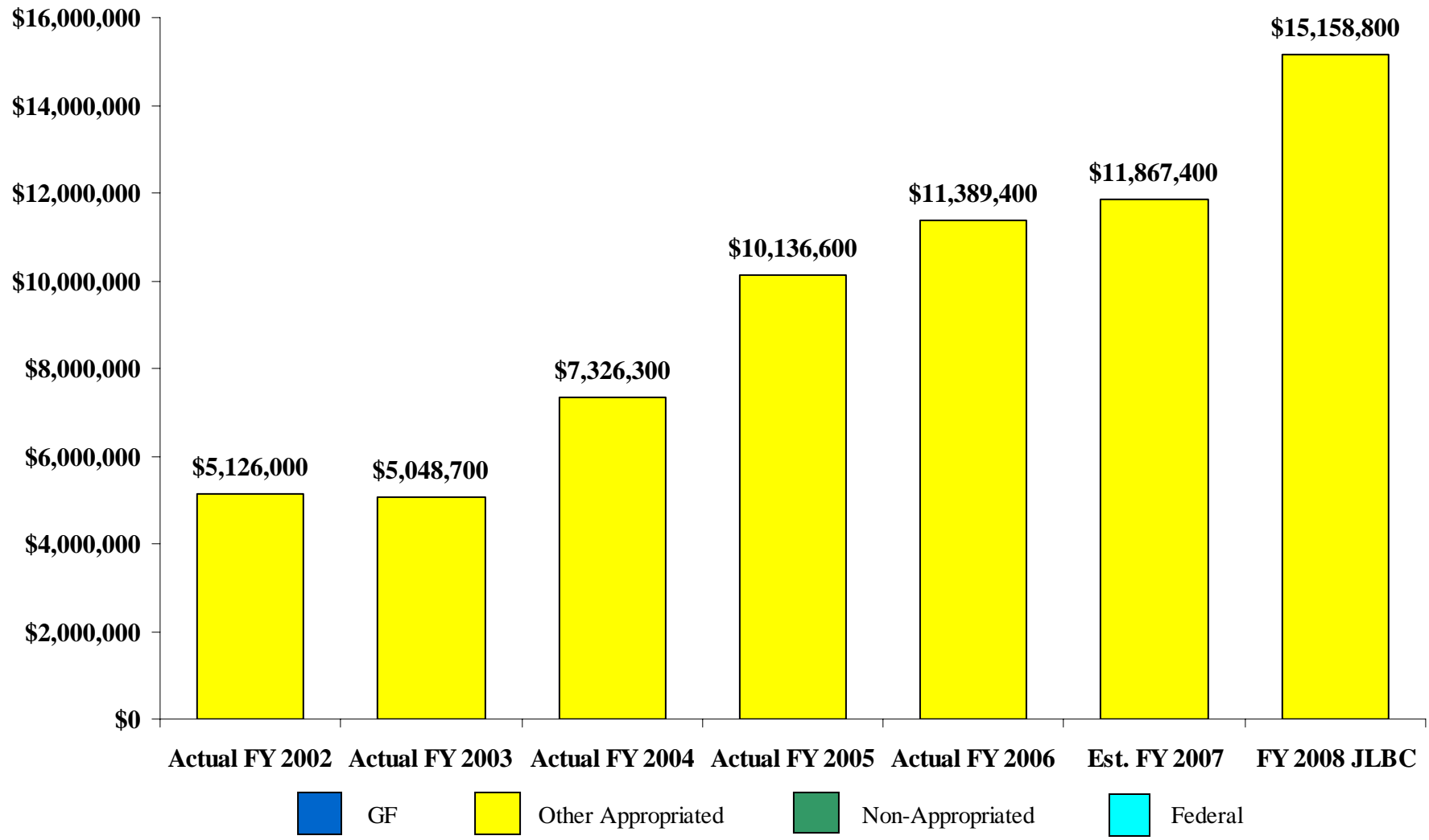
Gaming Sources of Funding

- Gaming Tribes share percentage of revenue with the state and local governments
 - State's share is projected to be \$121 M of \$2.4 B in FY 08
- Most funding goes to Education, Trauma Services, Wildlife Conservation, and Tourism
 - 9% goes to agency for gaming regulation and enforcement
 - 2% goes to agency for problem gambling programs
 - Cumulative agency funding anticipated to be \$13.3 M in FY 08
- Beyond tribal gaming revenues, agency charges fees to certify gaming employees and large casino vendors

JLBC Baseline – Executive Comparison of Major Issues

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Enforcement Staffing	\$754,000	0
2. Certification Staffing	\$142,000	0
3. Office Relocation	0	\$910,700
4. IT Equipment	0	\$663,000
5. Prosecution Services	\$296,600	\$296,600
6. Joint Monitoring System	\$1.2 M	\$1.2 M
7. Problem Gambling	<u>\$911,400</u>	<u>\$767,600</u>
TOTAL	\$3,304,000	\$3,837,900

**Department of Gaming
Total Funds FY 2002 - FY 2008**

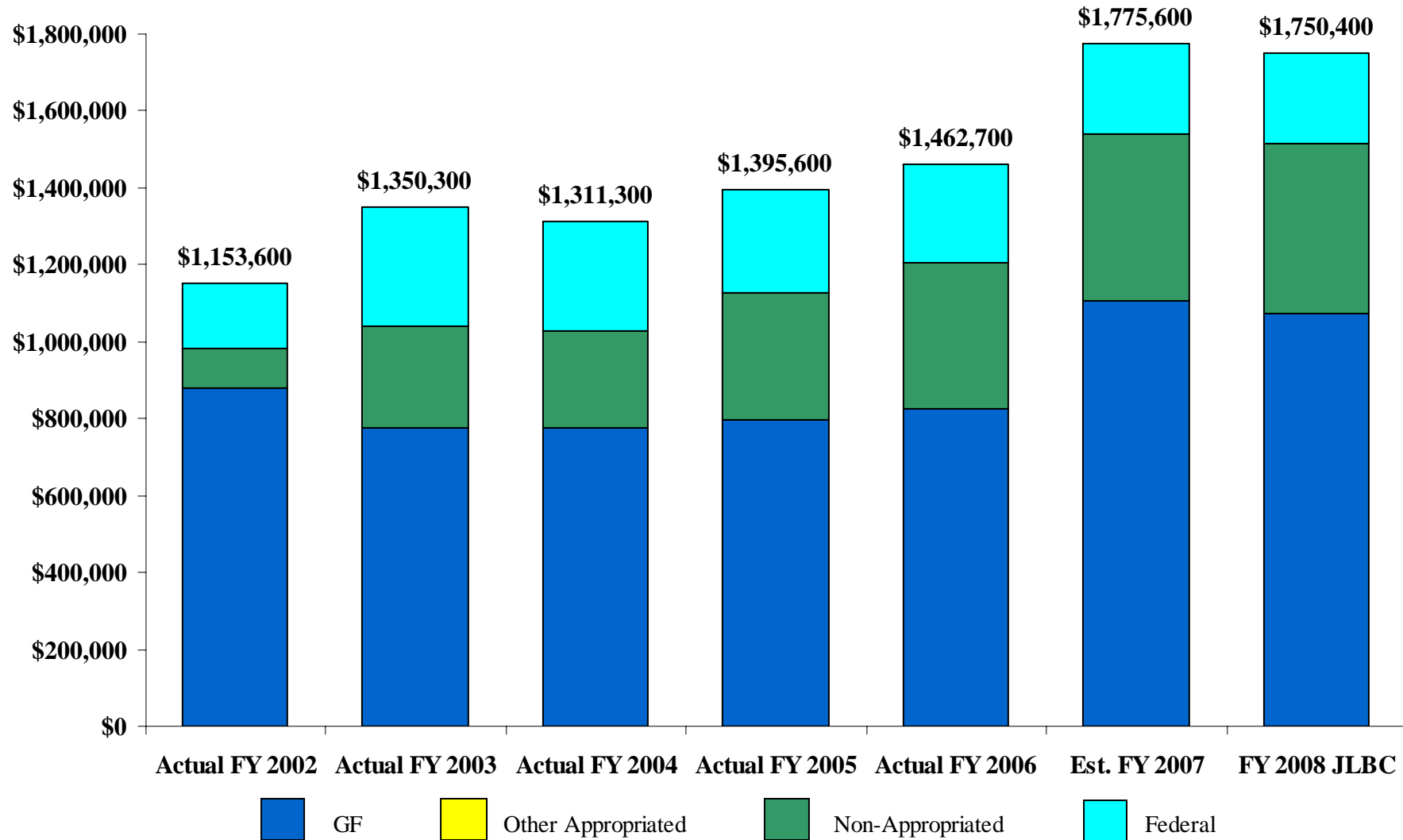


Arizona Geological Survey

Arizona Geological Survey

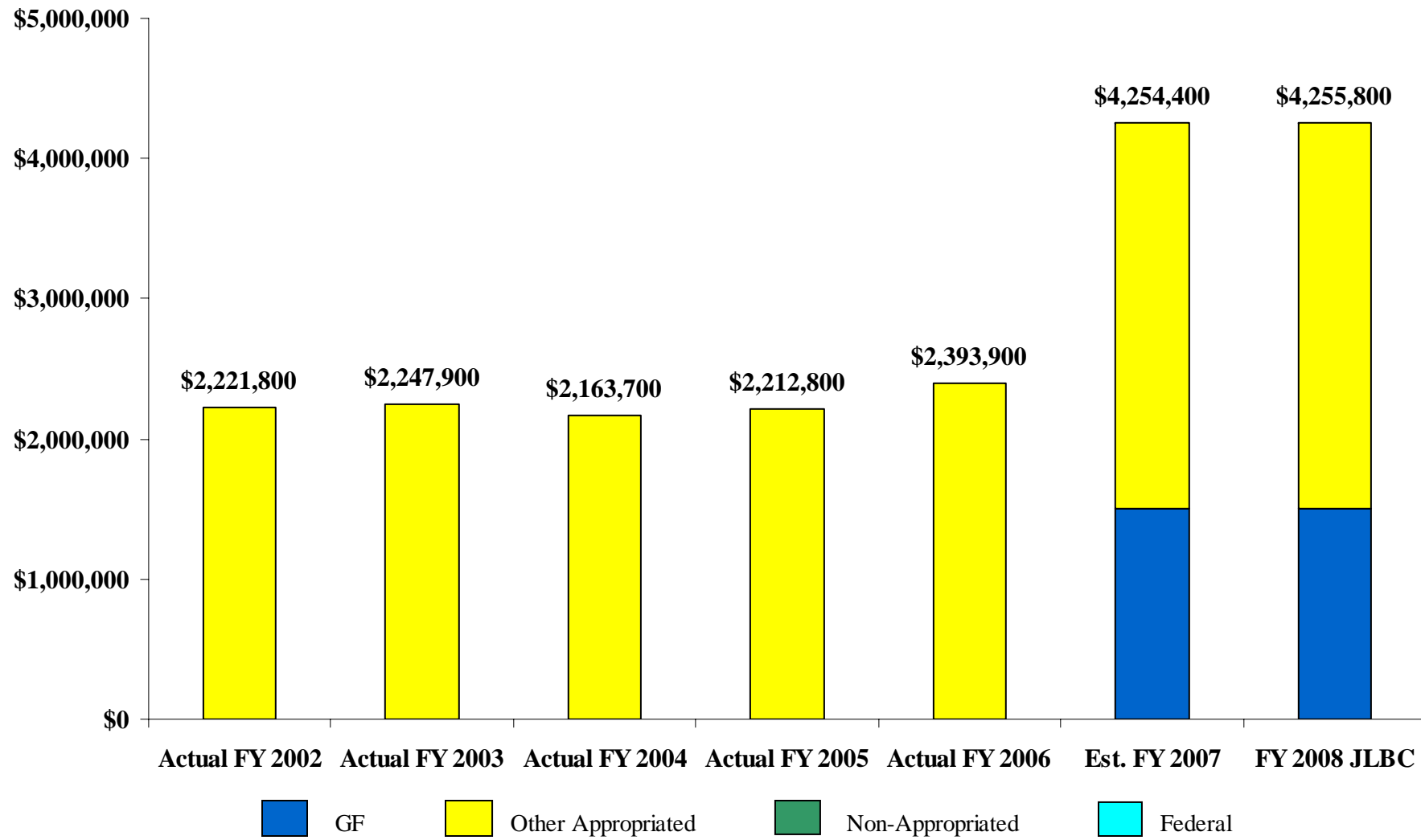
- AZGS provides information to the public and conducts research on the following issues:
 - Potential geologic hazards that may affect land use
 - Earth fissures
 - Land subsidence
 - Debris flows
 - Flooding
 - Mineral and energy resources
 - Rock formations
- Provides staff to the Oil and Gas Conservation Commission

**Arizona Geological Survey
Total Funds FY 2002 - FY 2008**



Government Information Technology Agency

**Government Information Technology Agency
Total Funds FY 2002 - FY 2008**



Statewide Security Office

- The Auditor General recommended “GITA take a stronger leadership role in IT security and privacy,”
- Other than advocating these 2 roles, the Auditor General did not prescribe an exact solution to its security and privacy concerns.

Statewide Security Office

- GITA requests \$1.8 million GF and 3 FTE Positions in FY 2008 to conduct a security risk assessment.
- GITA requests \$4.3 million GF and 11 FTE Positions in FY 2009 for operation expenses.
- Without results of a security risk assessment, projecting solutions to security and privacy issues is difficult.

Statewide Security Office

- If funding for the issue is considered, understanding GITA's current funding structure may be useful.
- GITA's operating budget consists of a .15% pro rata charge on agencies payroll.
- In FY 2006, this charge generated \$2.5 million.
- Of the revenue, approximately 50% was from the GF, 30% was from OF, and the remaining 20% was from other non-appropriated funds.
- A rate increase of 0.1% would generate an additional \$1.75 million per year.

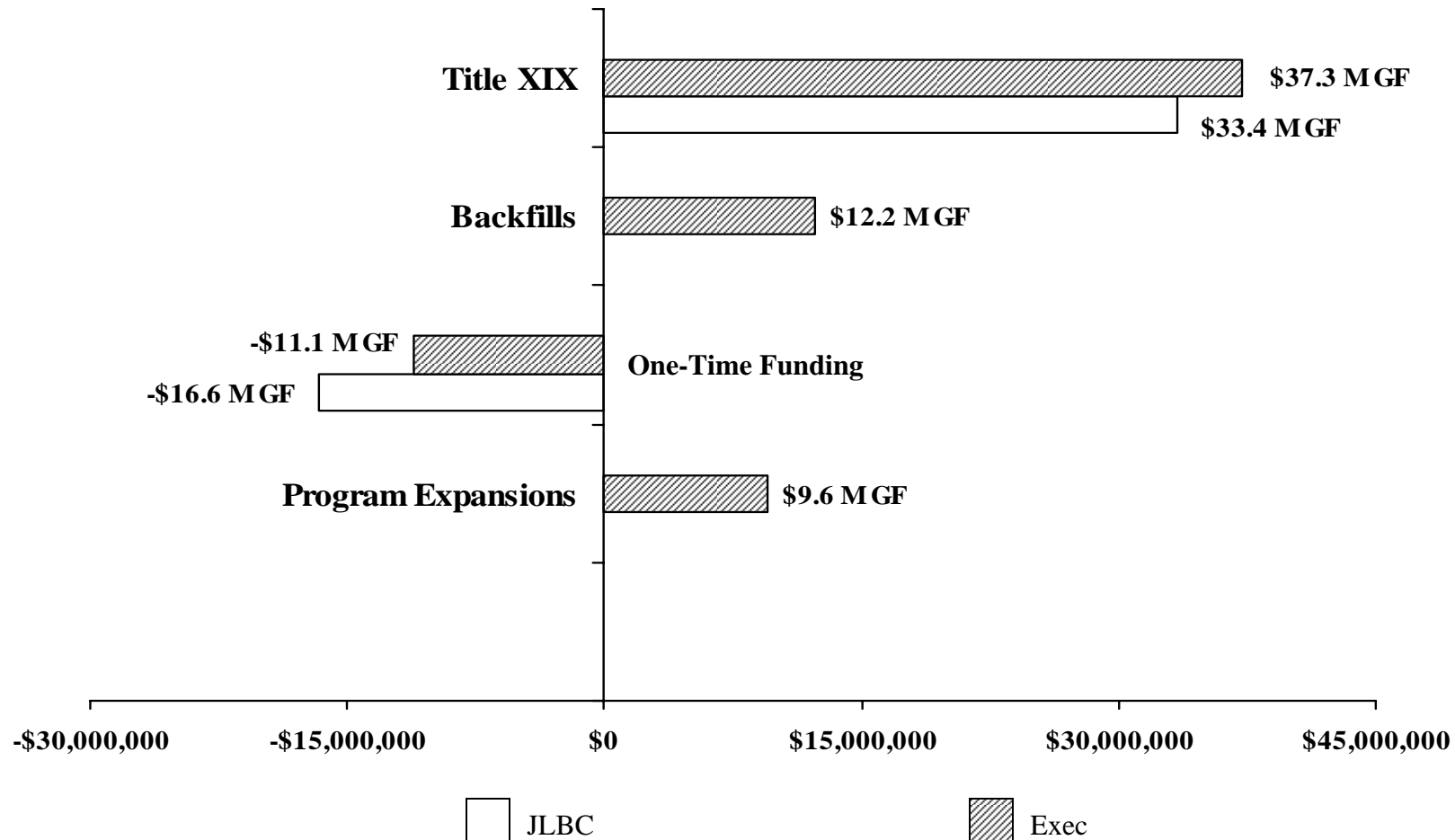
State Web Portal Fund

- Portal revenue is deposited into a contractor's fund, which at one point accrued a \$3 M credit balance.
- A new web portal contract will be signed by Oct. '07.
- New contract will deposit revenue into the State Web Portal Fund, rather than the contractor's fund.
- GITA should propose an expenditure plan for the Legislature to consider for the Web Portal Fund; otherwise it will not be able to use money in the fund.

Department of Health Services

Comparison of JLBC Baseline and Executive General Fund Increases Above FY 2007

-- JLBC Baseline, \$16.4M and Executive, \$47.7M



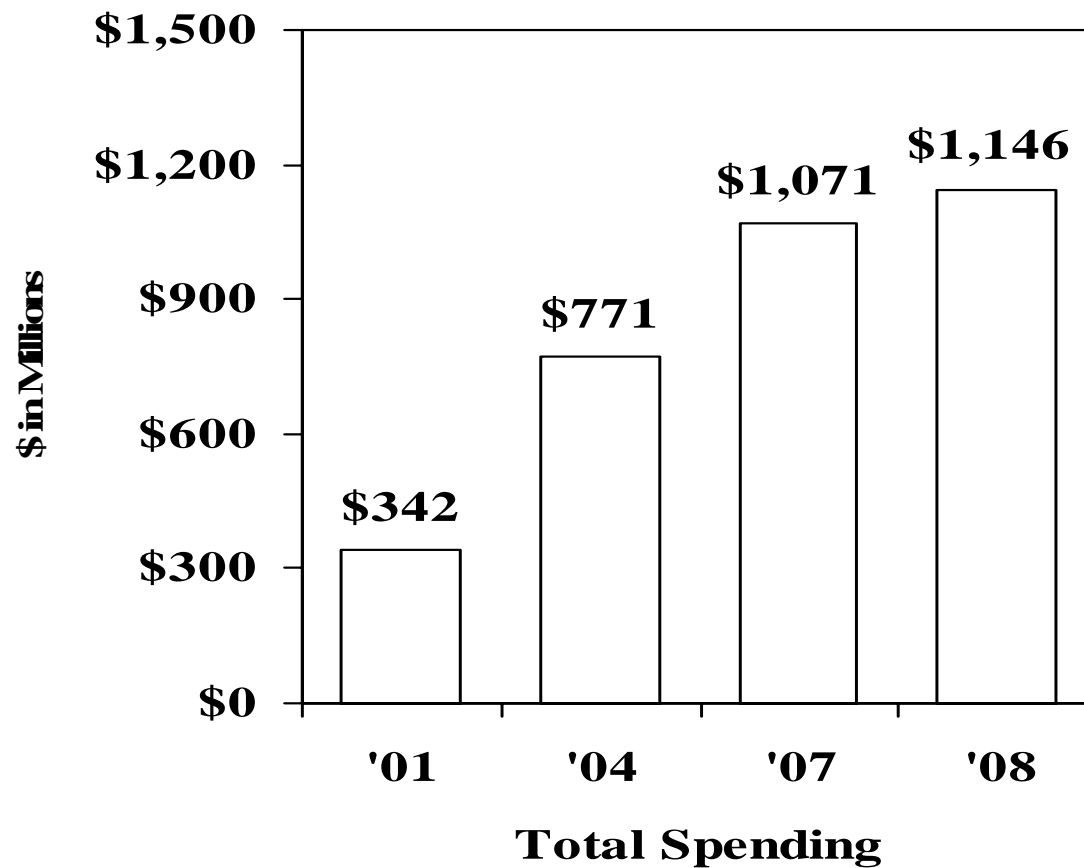
JLBC Funds \$33.4 M in Formula Growth

-- Executive Funds \$37.3 M

- Caseloads are Projected to Grow 3.0%
- JLBC Baseline uses a consensus model of JLBC Staff forecast, U of A econometric model, and AHCCCS estimates
- Capitation Rates are Projected to Grow 8.0%

DHS Behavioral Health Total Funds Would Increase by \$75 M in FY 2008

-- Arizona is 7th in per capita Behavioral Health Spending



Arnold v. Sarn Update

-- Lawsuit filed in 1981 claiming inadequate treatment of Seriously Mentally Ill in Maricopa County

- September 2006 Auditor General Report found:
 - The Maricopa County RBHA assesses a higher rate to its services than it charges subcontractors or AHCCCS
 - The Maricopa RBHA has been using surpluses in its SMI program to subsidize losses in other programs
 - Arnold vs. Sarn lawsuit focuses DHS on process rather than outcomes
- Court Monitor's 2006 Independent Review found that while compliance improved for some areas, "these findings do not result in improved clinical practice or better quality of care"

Of \$12 M in Executive Backfills, \$6.5 M is for Institute for Mental Disease (IMD) Waiver Loss

- Arizona has 8 IMD facilities, which have over 16 beds and more than 50% of patients are treated for behavioral health issues
- State has a waiver to receive federal funding for IMD patients. Beginning in FY 2008, the waiver is being phased out
- Executive adds \$6.5 M in FY 2008 to backfill lost federal revenue. Annualized loss in FY 2009 could be \$35 million
- Other option: Explore shifting clients to facilities with 16 or fewer beds, which would allow them to retain federal funding or examine whether some existing IMDs could be reclassified

Other Executive Backfills

State Hospital Fund Revenues **\$3.3 M**

- Executive forecasts increased rural RTC population
- Difficult to predict in advance, 07 budget already provided \$3.2 M

Tobacco Tax Backfill **\$1.8 M**

- Reduced revenues due to 80 cent tobacco tax
- Difficult to predict in advance

Capital Outlay Stabilization Fund **\$1.6 M**

- Executive suggests balance in COSF decreasing
- Source of revenue – rental rates – however are increasing

DHS Indirect Cost Fund **\$(1.0) M**

- Balances in fund available to offset GF operating costs
- Fund balance is \$7.5 M

DHS One-Time Items

-- Executive retains \$5.5 GF in FY 2007 one-time items

Alzheimer's Research	\$3.0 M
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Substance Abuse Services	\$2.5 M
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Umbilical Cord Pamphlets	\$30.0 K
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Executive Program Expansions

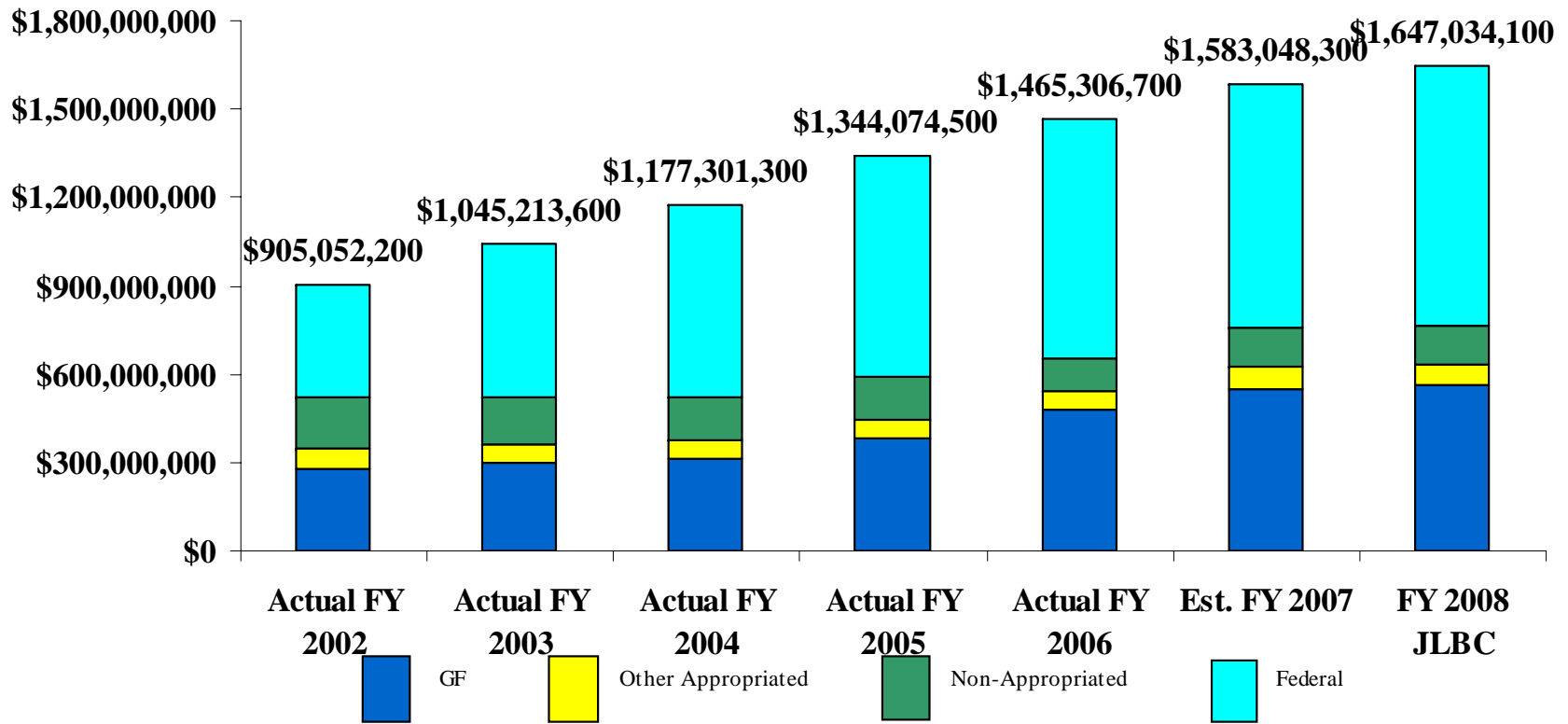
-- Executive adds \$9.6 M GF for new and expanded programs

- **State Hospital Issues** **\$3.1 M GF**
Electronic medical records, Hep. C treatment, increased utilities & salary
- **Immunization Program** **\$2.7 M GF**
400K doses to uninsured children and adults including HPV vaccine
- **AZ Commodity Supplemental Food Program** **\$1.2 M GF**
4,000 food baskets per month for low-income elderly
- **Licensing Division** **\$0.6 M GF**
Childcare licensure phase in and backlogs at medical facilities
- **Tribal Methamphetamine** **\$0.4 M GF**
Law enforcement, prevention and education grants to tribal communities

Non General Fund

- **Community Health Centers** **\$1.5 M Tobacco Tax**
Increased funding for 11K new visits annually
- **Newborn Screening** **\$0.7 M Newborn Screening Fund**
DHS experiencing cost overruns with new tests

**Department of Health Services
Total Funds FY 2002 - FY 2008**

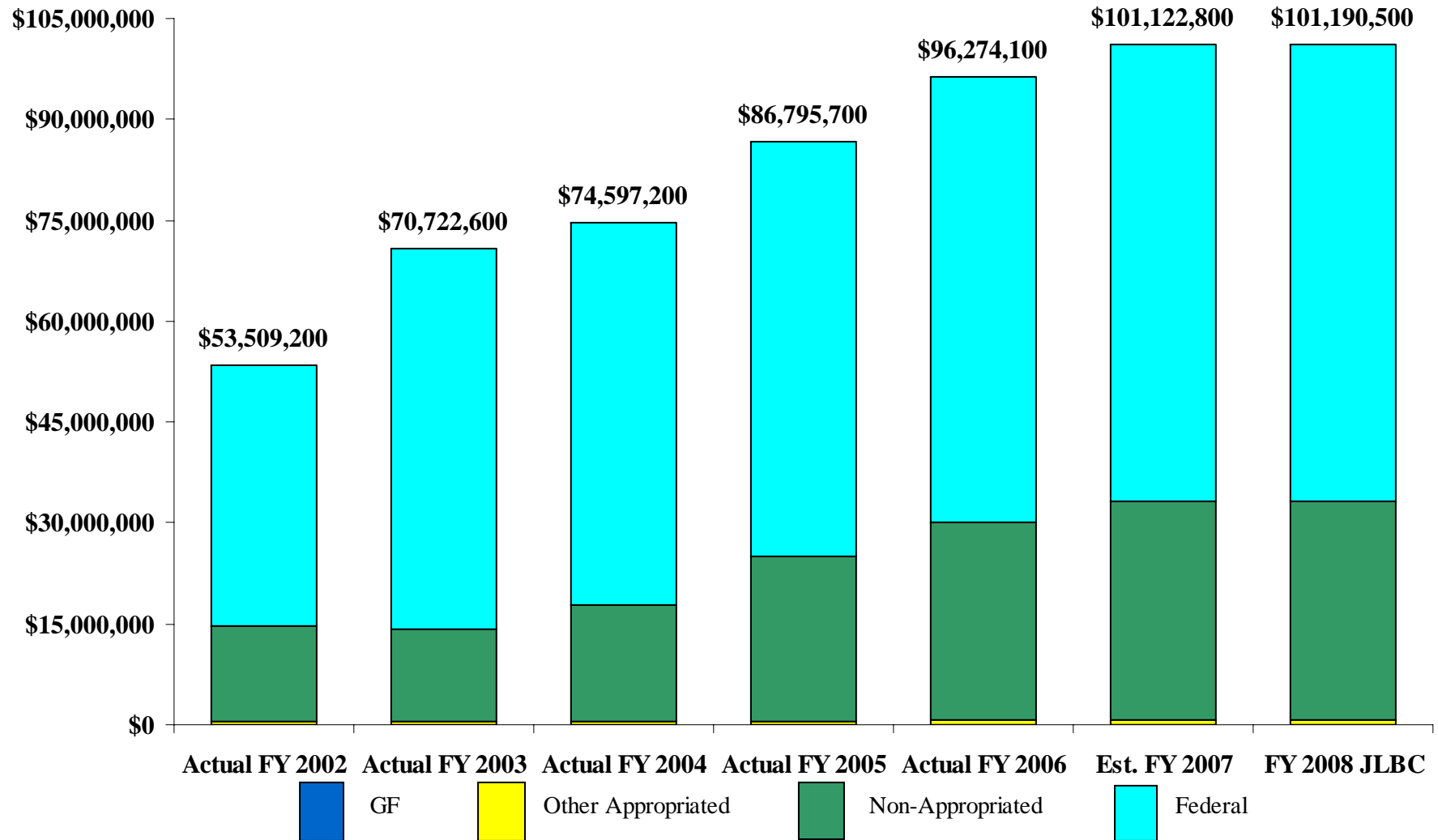


Arizona Department of Housing

Department of Housing Funding Comes From 3 Main Sources

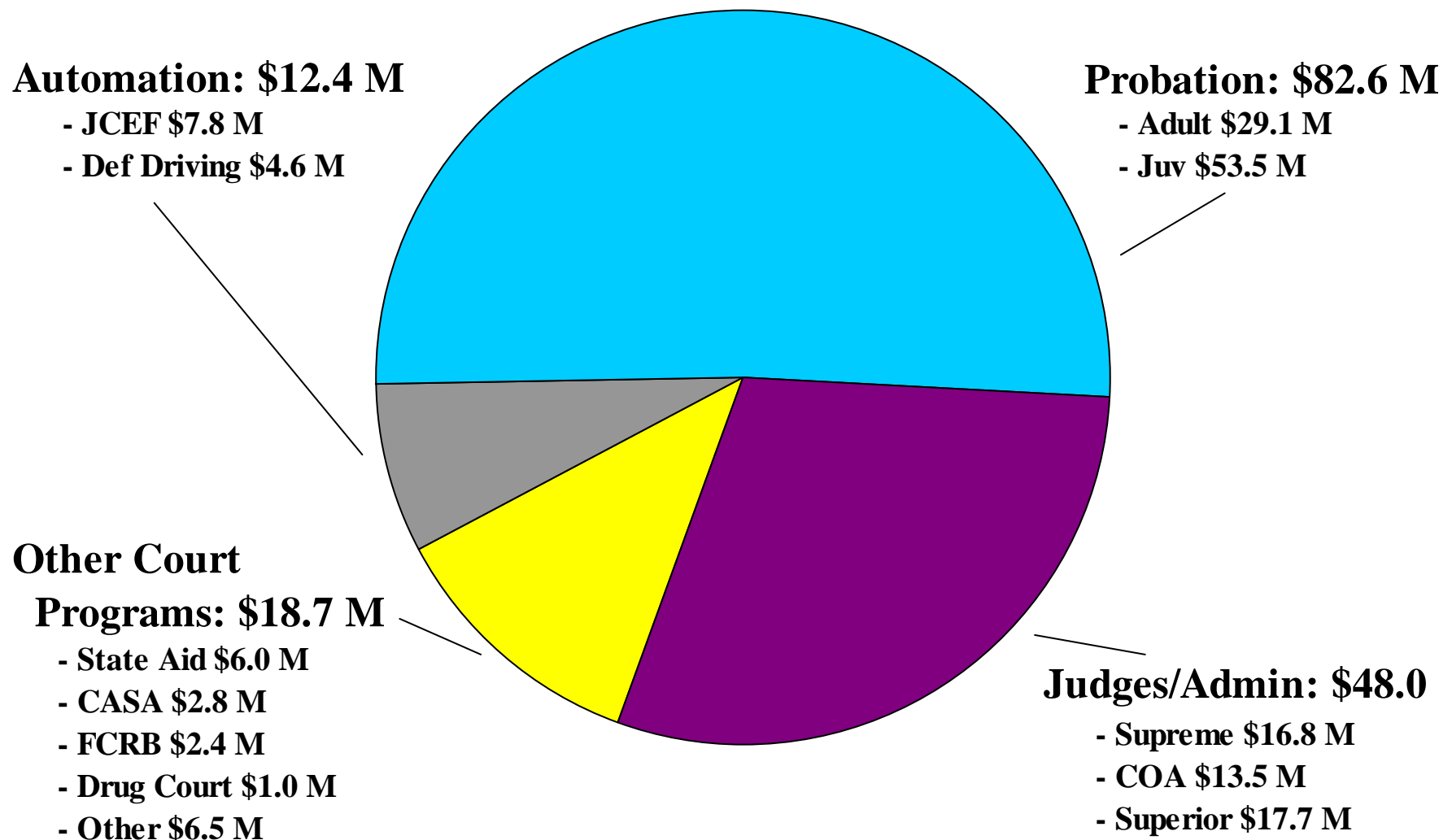
- Federal Funding from Department of Housing and Urban Development: \$67 M
 - Mostly pass-through funding to local housing authorities, with up to 10% of some funds set aside for administrative expenses
- Other State Funds: \$9 M
 - Non-appropriated monies pay for private activity bond underwriting, low-income tax credit administration, and Federal Section 8 housing contract administration
 - Monies also support programs of the Arizona Housing Finance Authority and provide incentives for affordable housing for Corrections personnel in rural areas
- Housing Trust Fund: \$25 M
 - Monies derived from 55% share of state's annual unclaimed property revenues
 - Funds used for development of homeownership programs, rental and shelter units, rehabilitation of properties, and subsidies
- Up to 10% of the Housing Trust Fund can be appropriated by the Legislature for administration

**Arizona Department of Housing
Total Funds FY 2002 - FY 2008**



Judiciary

FY 2008 Judiciary Baseline Funding = \$161.7 M



FY 2008 JLBC Baseline

Changes Above/Below '07

	<u>GF</u>	<u>OF</u>
• Judicial Salary Annualization	\$1.0 M	-
• 5 Superior Court Judgeships	417 K	-
• One-Time Integrated Family Court	(850) K	-
• One-Time Equipment	(64) K	-
• Rebase Retirement Rates	(841) K	-
• AZNet	(27) K	-
• Technical	(97) K	(30) K
	<u>(462) K</u>	<u>(30) K</u>

Judiciary Requests

\$3.0 M GF & \$747 K OF Increase Over '07

	GF	OF
• Supreme Court		
– Staff Attorney	\$ 60,300	-
– Permanency Hearings	382,700	-
– CORP Board Administrator	192,300	
– CASA		-
• Fund Shift	753,000	(753,000)
• Volunteer Coordinators	138,500	-
– State Aid to Courts	-	1,500,000
– Commission on Judicial Conduct	77,300	
• COA		
– Division I		-
• Staff	218,500	-
• Automation	258,600	
– Division II		
• Staff	139,700	-
• Automation	39,500	-
• Superior Court		
– Adult Probation	710,000	-
	<u>\$2,970,400</u>	<u>\$747,000</u>

JLBC Baseline Maintains '07 Probation Funding

	JLBC Baseline	Judiciary
• Adult Standard	\$ 238 K	\$490 K
• Adult Intensive	(119) K	-
• Juvenile Intensive	(119) K	-
• JP Probation	-	220 K
	\$ 0	710 K

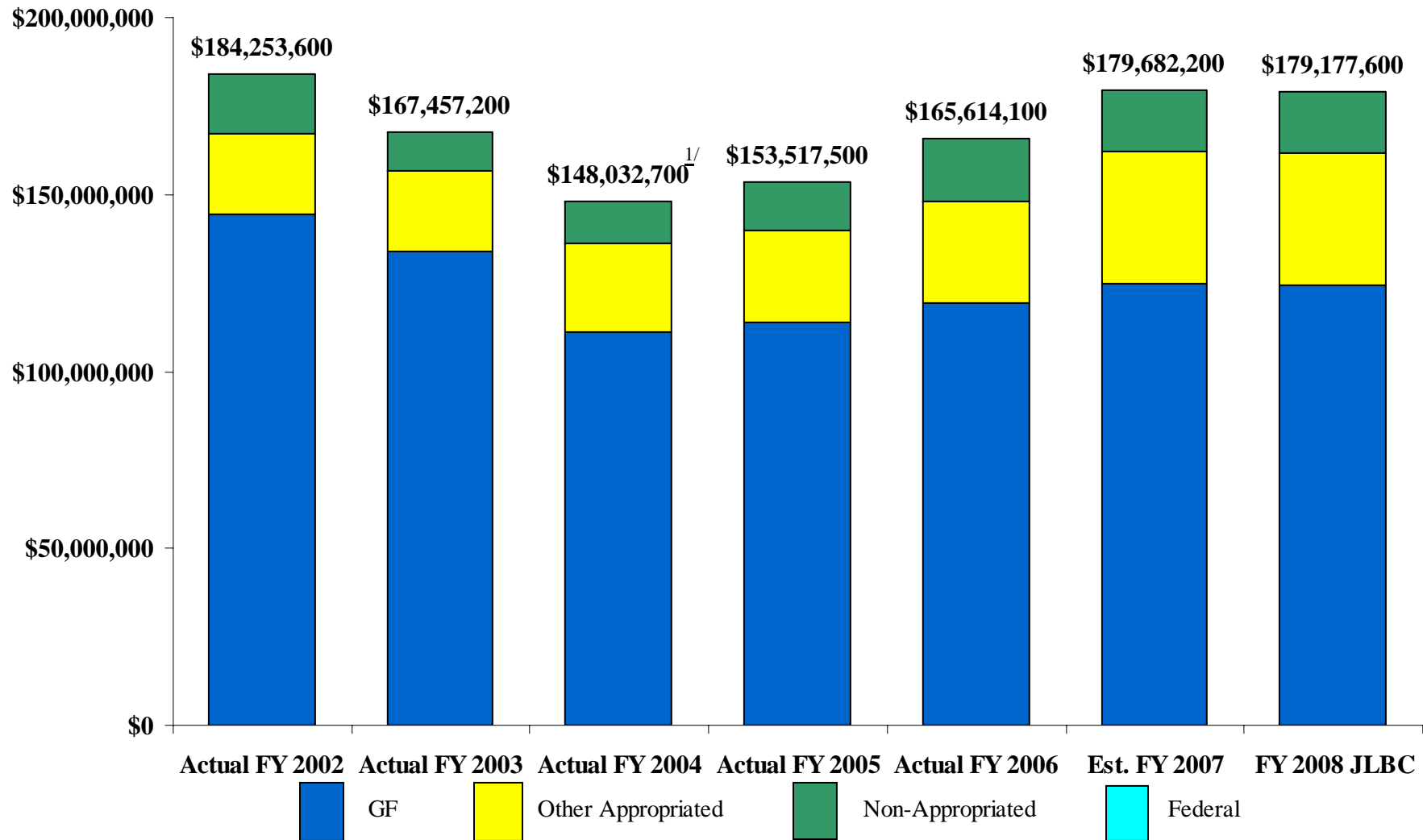
Probation Funding Determined by Statutory Ratios

Current Funding Falls Within Statutory Ratios

<u>Category</u>	<u>Adjusted Statutory Ratio</u>	<u>Baseline Projected Ratio</u>	<u>Predicted FY 08 Caseload</u>
Adult Standard	59:1	59:1	14,177
Adult Intensive	24:2	24:2	1,633
Juvenile Standard	33:1	28:1	3,288
Juvenile Intensive	24:2	18:2	817

Judiciary

Total Funds FY 2002 - FY 2008



Department of Juvenile Corrections

Both JLBC Baseline and Executive reduces by \$(918,000) for lower population

- Current Funded Beds: 655
- Current 6-month average: 602
 - Population ranged between 565 and 615
- FY 2008 JLBC: 623
- FY 2008 Executive: 623

JLBC Baseline - Executive Comparison

General Fund Issues

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Youth Population Reduction	\$(918,000)	\$(918,000)
2. One-Time Safety Renovations	\$(495,000)	0
3. Rebase Retirement Rates	\$(580,500)	0
4. One-Time AZNET	\$(330,900)	0
5. Youth Officer Pay	0	\$887,700
6. Supervisor Pay Increase	0	\$177,000
7. Utility Cost Increases	<u>0</u>	<u>\$91,400</u>
TOTAL	\$(2,324,400)	\$238,100

Youth Correctional Officer

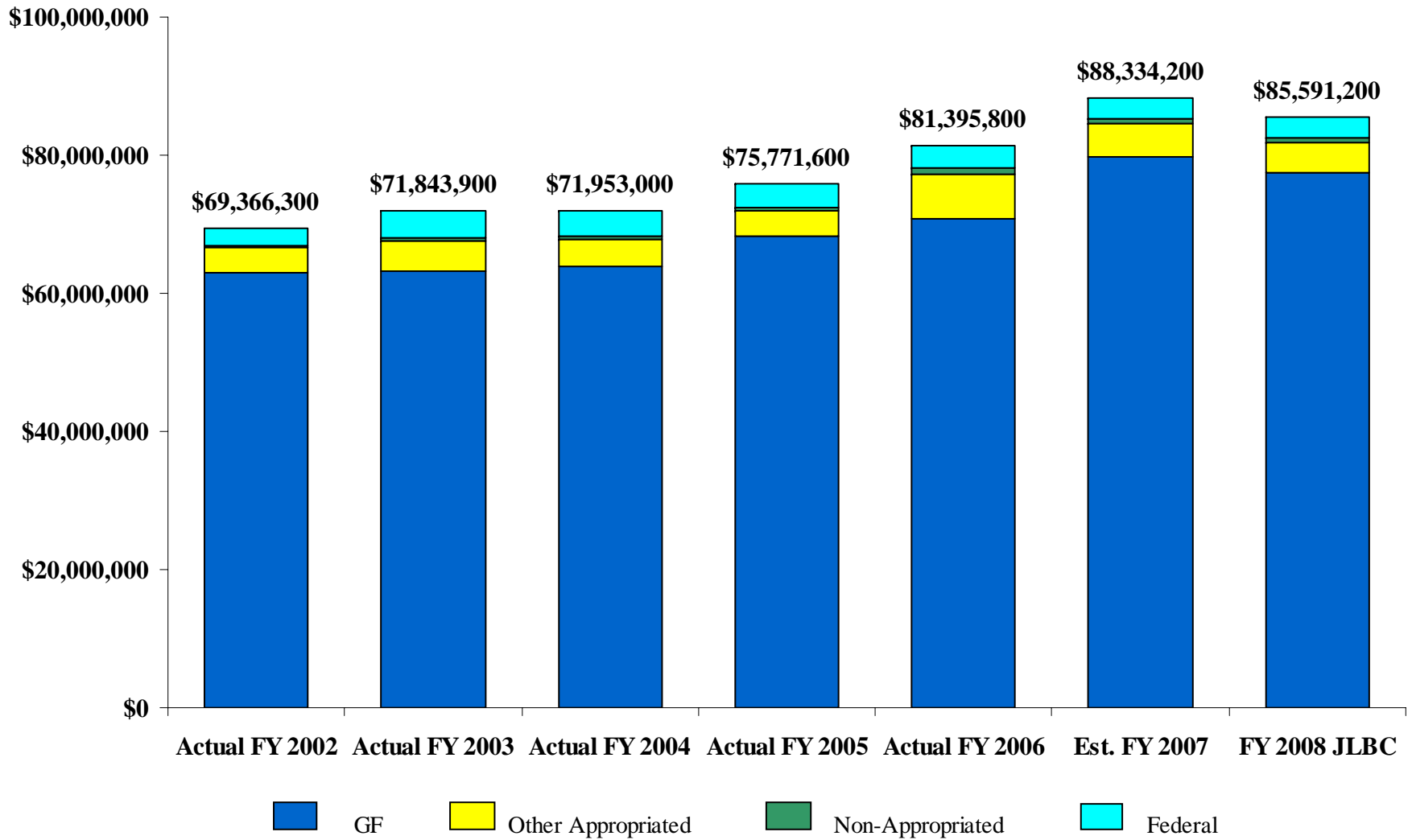
Starting Salaries

Reflects only \$1,243 Executive proposal
Does not reflect supervisor pay increase

	Current <u>DJC*</u>	Proposed <u>DJC*</u>	Current <u>ADC*</u>	Pima <u>County</u>	Maricopa <u>County</u>
YCO II/CO II	\$32,513	\$33,756	\$32,677	\$33,696	\$33,800
Sergeant	\$37,012	\$38,255	\$38,255	\$44,059	\$51,730
Lieutenant	\$39,666	\$40,908	\$40,908	\$54,991	\$65,416
Captain	\$42,849	\$44,092	\$44,092	\$68,353	\$78,770

*Includes 2.5% merit pay authorized by Laws 2006, Chapter 1

**Department of Juvenile Corrections
Total Funds FY 2002 - FY 2008**



Five-Year Strategic Plan

A.R.S. § 35-122 requires agencies which submit annual budget requests to submit a 5-year strategic plan by January 1 yearly. Legislative appropriations committees are to review these plans annually. The Department of Juvenile Corrections has not yet submitted its plan as required by A.R.S. § 35-122.

State Land Department

Proposed Executive Issues

FY 08

(\$ in thousands)

Land Sales

- Technical Support - 12 FTE Positions \$761
 - \$4.4 M and 16.5 new FTE Positions added in the last 2 years

Land Management

- Trespass Prosecution and Mitigation \$385
 - \$125,000 is recommended as one-time
 - Clean up Trust land and install fencing to prevent trespass
- Dam Safety Inspections \$150
 - Inventory and assess liability and safety of dams on Trust land

Proposed Executive Issues

FY 08

(\$ in thousands)

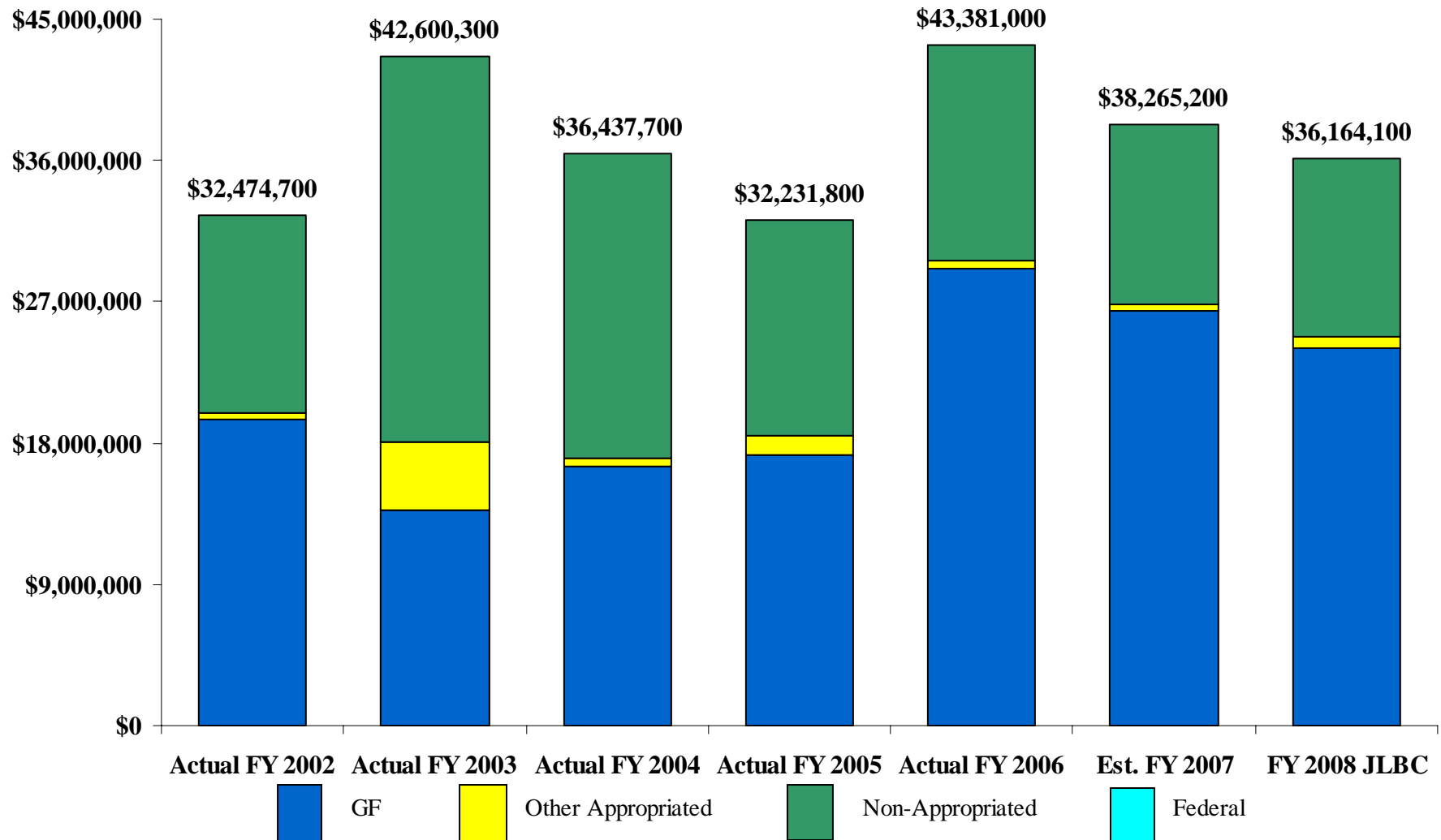
Fire Suppression

- IT Communications for Emergency Response \$250
 - \$96,000 for radio system upgrade in FY 07
- 4 Operating Staff \$364
- Fire Suppression Operations \$250

Department Management

- Document Processing and Security \$227
- Risk Management Increase \$136
- Retains One-Time Funding \$210

**State Land Department
Total Funds FY 2002 - FY 2008**



Arizona State Lottery Commission

JLBC Baseline: Changes From FY 07 Operating Budget

	<u>FY 08</u>	<u>FY 09</u>
• Computer Replacement	\$150,000	\$ 0
• Additional Vehicle	29,400	11,700
• Vacant Instant Tickets FTE	39,400	33,800
• Technical	(24,300)	(24,300)

- Executive has similar funding, but does not include funding to fill the vacant Instant Tickets position

JLBC Baseline: Changes From FY 07

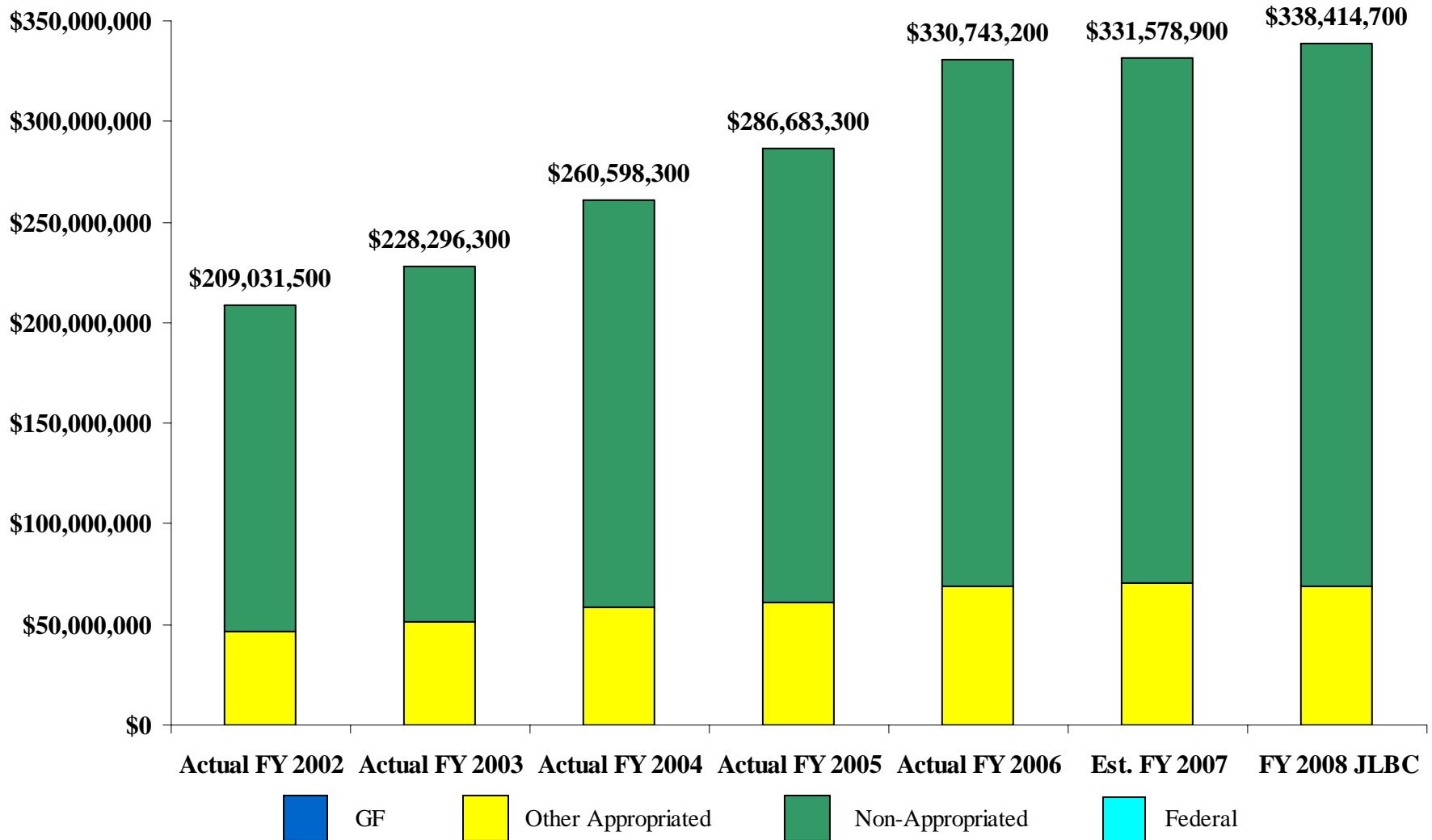
Special Line Items

	<u>FY 08</u>	<u>FY 09</u>
<u>Sales Increases</u>		
• Instant Tickets	\$161,500	\$242,200
• Retailer Commissions	658,200	1.2 M
<u>New On-Line Vendor Contract</u>		
• On-Line Vendor Fees	(289,200)	(92,300)
• Telecommunications	(2.2) M	(2.2) M

FY 08 Forecasted Lottery Distributions

• General Fund	\$45.7 M
• Local Transp. Assistance Fund	23.0 M
• Health and Welfare	21.1 M
• Heritage Fund	20.0 M
• Mass Transit	18.0 M
• County Assistance Fund	7.7 M
• Economic Development	<u>4.2 M</u>
TOTAL:	\$139.6 M

**Arizona State Lottery Commission
Total Funds FY 2002 - FY 2008**



State Mine Inspector

JLBC Baseline – Executive Budget

JLBC Baseline

- \$(5,300) below the FY 07 appropriation

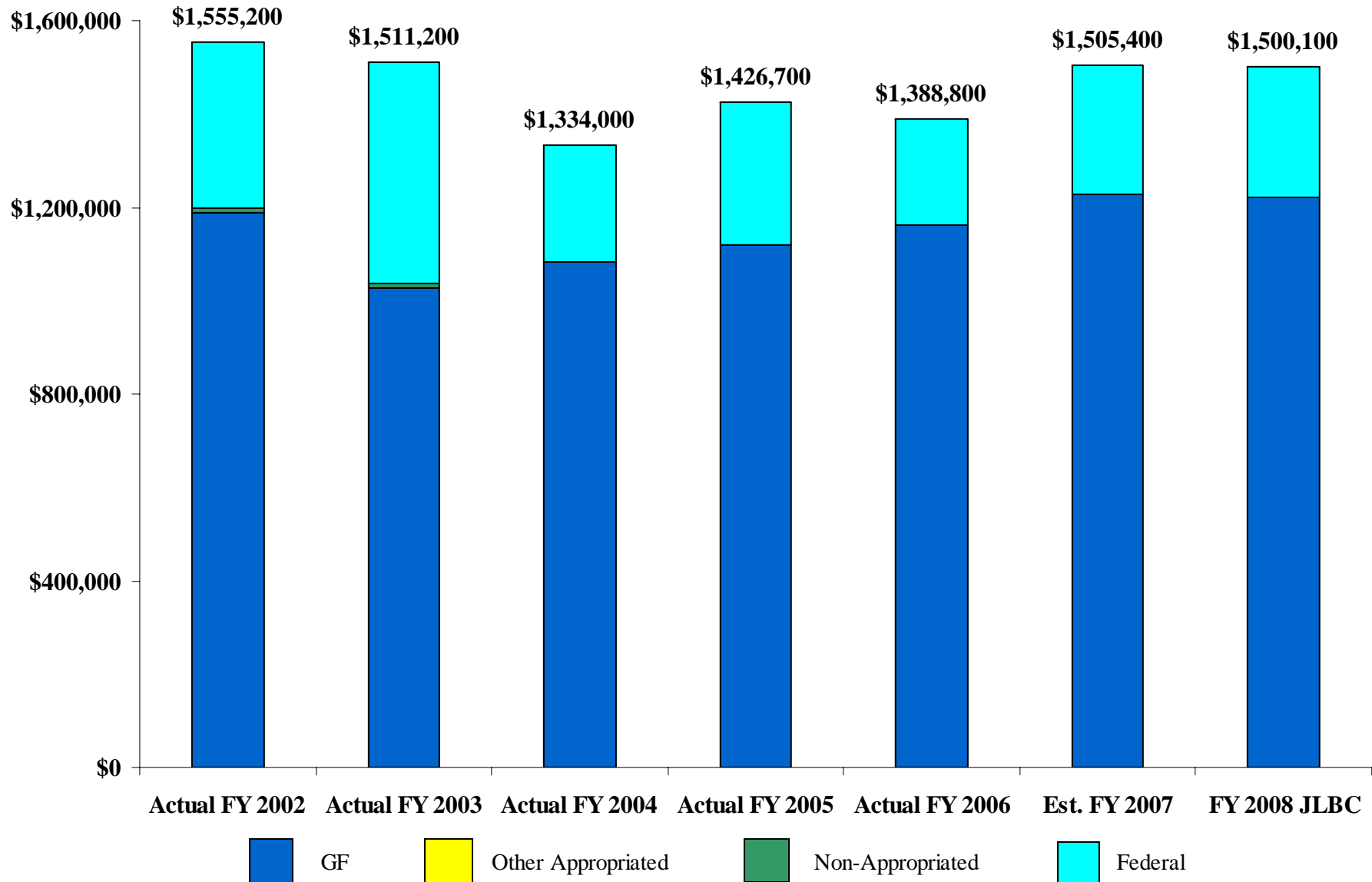
Executive Budget

- \$(83,200) below FY 07 appropriation
 - Adds \$23,400 for a new telephone system
 - Includes a \$(110,600) decrease for risk management
 - JLBC Baseline retains because the agency previously had to absorb a large increase

Agency Request

- The agency request is \$607,900 above the FY 08 JLBC Baseline
- The agency requests funding for 2 issues:
 - Fill 6 unfunded vacant positions – \$591 K
 - 2 mine inspectors
 - 2 positions for abandoned mines
 - 1 positions for aggregate mine reclamation
 - 1 administrative assistant
 - New phone system – \$17 K
 - Executive funds at \$23 K

**State Mine Inspector
Total Funds FY 2002 - FY 2008**

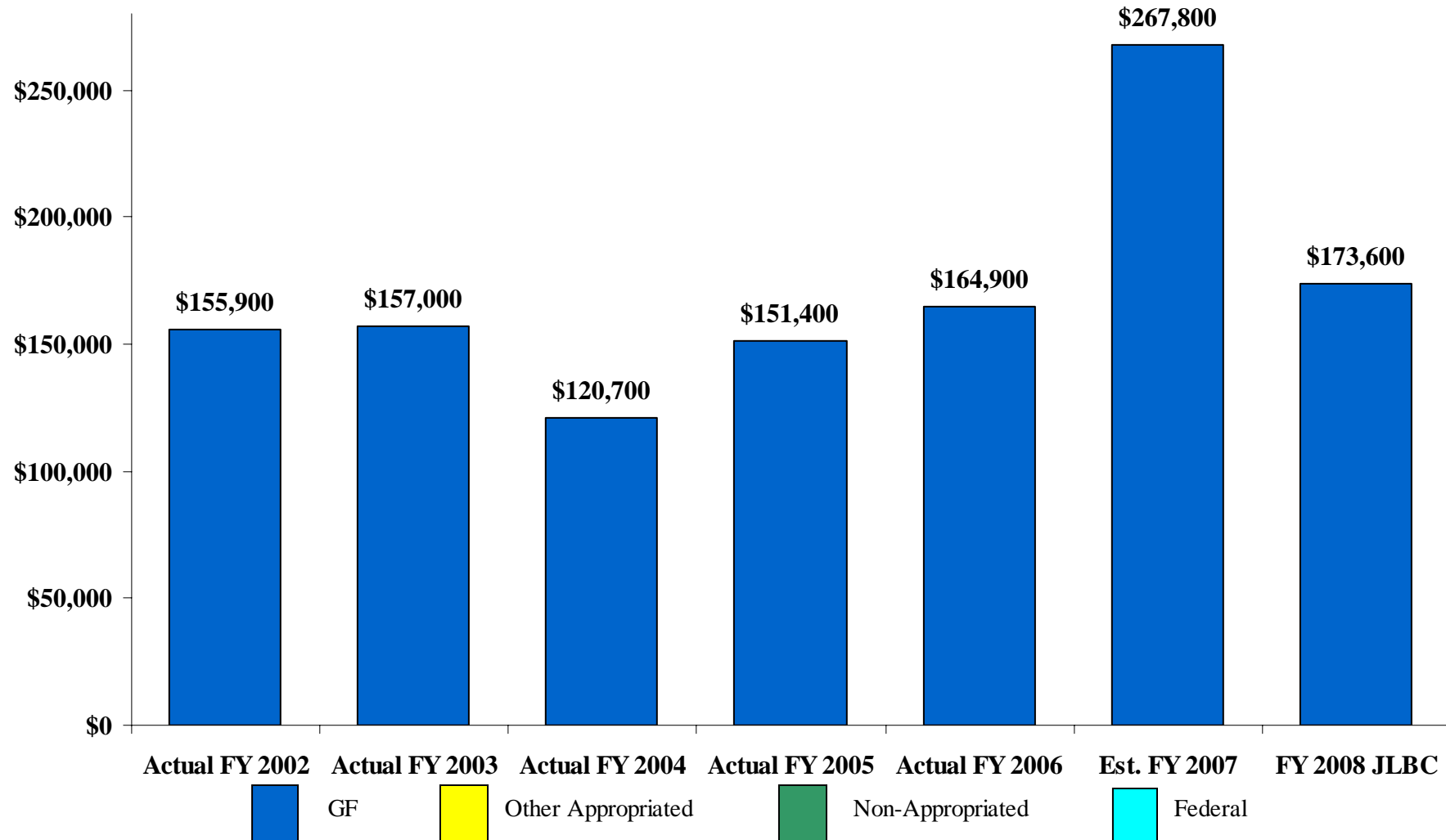


AZ Navigable Stream Adjudication Commission

AZ Navigable Stream Adjudication Commission

- ANSAC is responsible for determining the navigability of watercourses in Arizona
- All watercourses have been determined non-navigable
- The State Land Department is currently appealing ANSAC's decision regarding the Lower Salt River
- The commission is intended to sunset and commissioners' terms expire on June 30, 2008

**Arizona Navigable Stream Adjudication Commission
Total Funds FY 2002 - FY 2008**

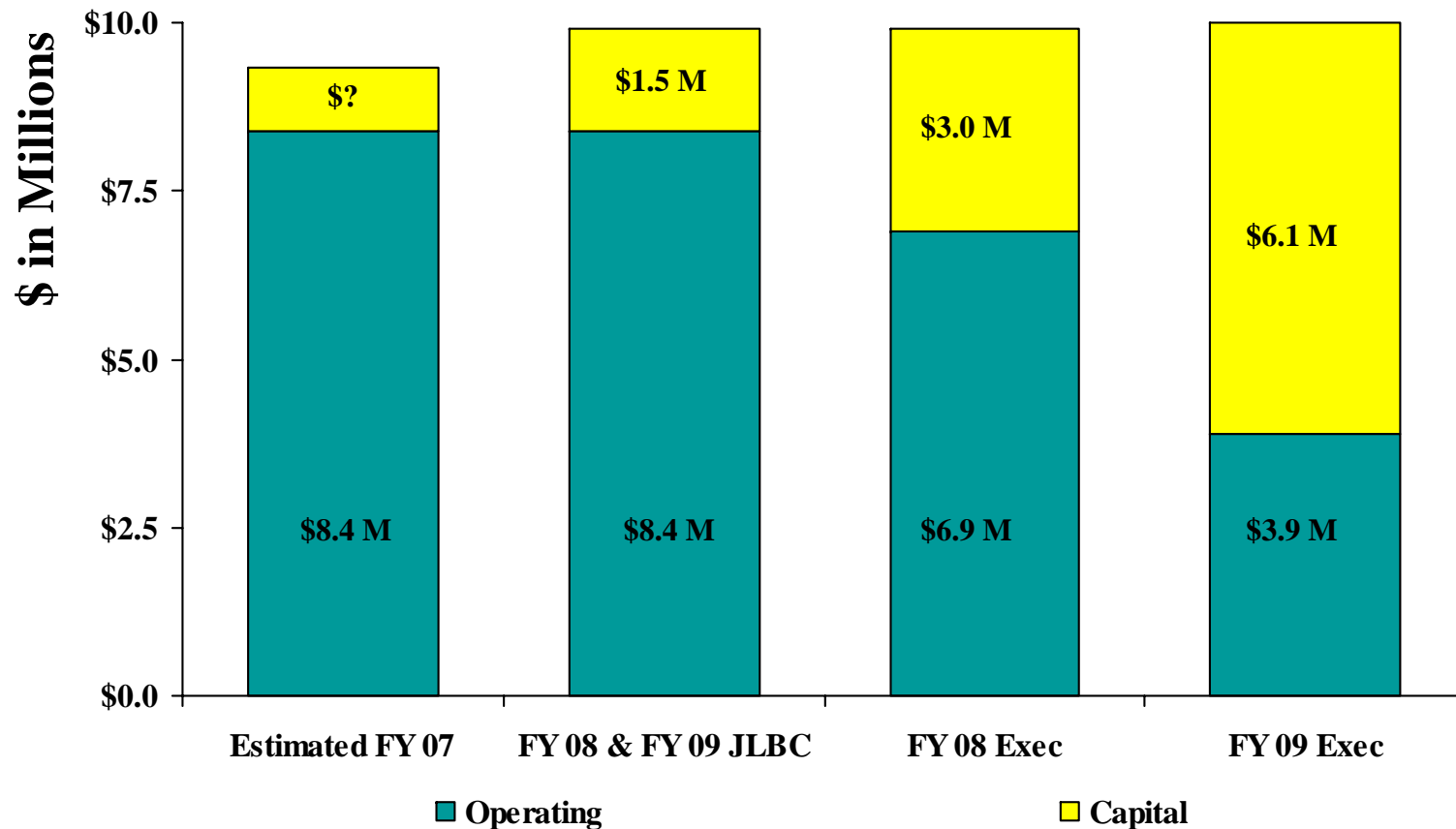


Arizona State Parks Board

Park Fees Are Split Between Operating and Capital

- Revenue from park fees and concessions are deposited into Enhancement Fund.
- Under Permanent Law, $\frac{1}{2}$ of fund is for appropriated operations funding and $\frac{1}{2}$ is for non-appropriated capital funding, but is subject to JCCR approval.
- Beginning in FY 04, most of the fund was appropriated for park operations.
- The FY 07 budget began to reverse this policy and the Executive would accelerate this reversal in FY 08 and FY 09.

**Executive Proposes to Shift \$1.5 M in '08
and \$4.5 M in '09 to Capital**
-- Requires General Fund Backfill of Operating Budget

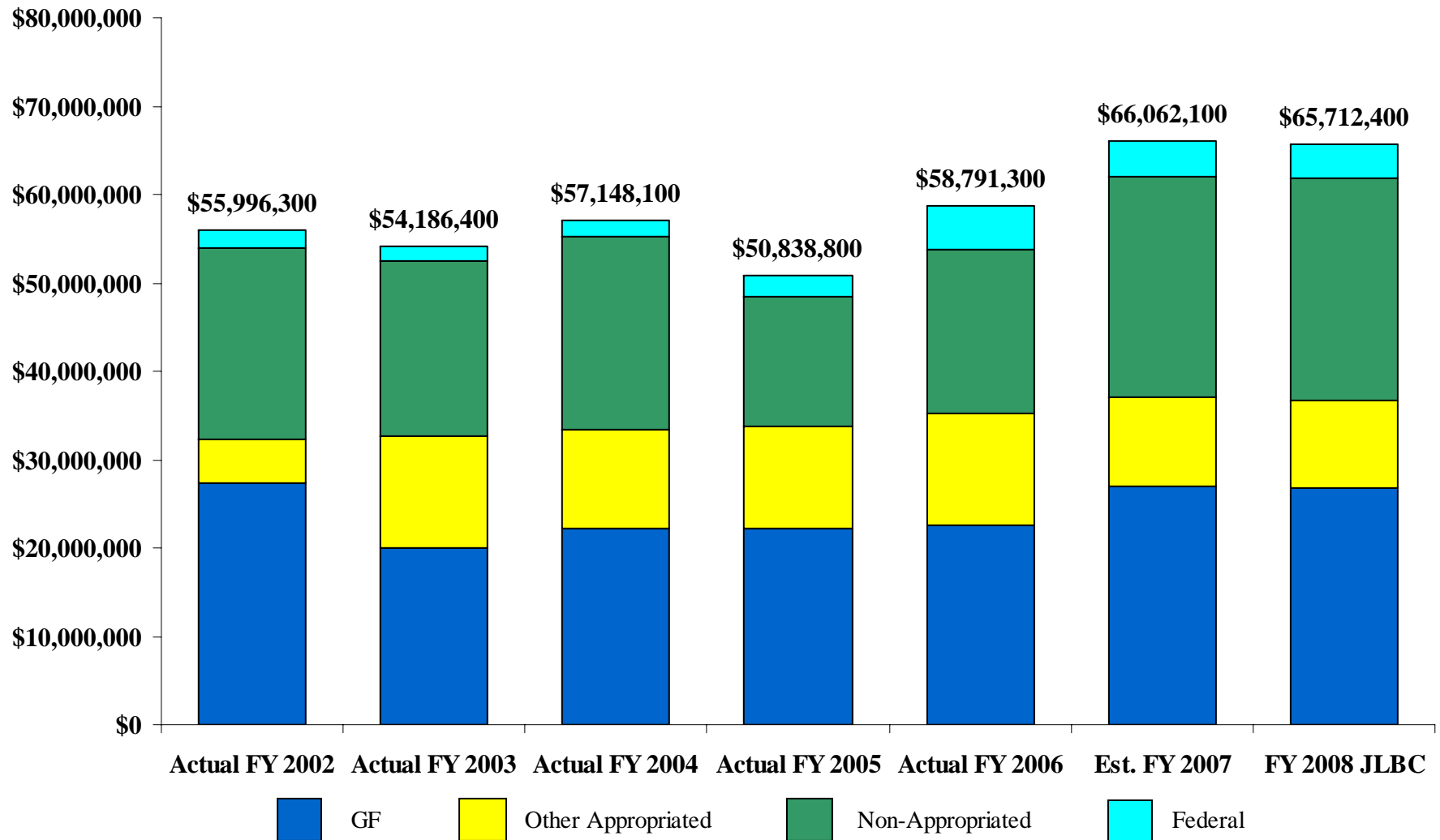


Enhancement Fund Expenditures FY 2007 - FY 2009

FY 2005 and FY 2006 Attendance by Park

<u>Park</u>	<u>Attendance</u>		<u>Park</u>	<u>Attendance</u>	
	<u>FY 2005</u>	<u>FY 2006</u>		<u>FY 2005</u>	<u>FY 2006</u>
Alamo Lake	35,020	61,163	McFarland	3,442	3,454
Boyce Thompson	81,579	63,599	Oracle	8,384	9,062
Buckskin Mountain	88,988	85,048	Patagonia Lake	202,785	180,244
Catalina	124,942	138,341	Picacho Peak	105,300	56,321
Cattail Cove	105,812	95,498	Red Rock	76,188	72,644
Dead Horse Ranch	88,350	98,269	Riordan Mansion	24,041	23,906
Fool Hollow Lake	73,321	89,042	Roper Lake	48,376	69,985
Fort Verde	17,290	16,530	San Rafael	0	0
Homolovi Ruins	16,656	15,587	Slide Rock	238,521	238,587
Jerome	56,008	58,049	Tombstone	48,247	49,121
Kartchner Caverns	198,374	160,467	Tonto Natural Bridge	83,338	90,450
Lake Havasu	346,858	345,853	Tubac Presidio	16,295	16,919
Lost Dutchman	88,319	75,549	Yuma Crossing	13,297	15,641
Lyman Lake	39,591	40,395	Yuma Prison	57,002	54,686
			Total Park Attd.	2,286,324	2,224,410

**Arizona State Parks Board
Total Funds FY 2002 - FY 2008**



Commission for Postsecondary Education

Commission for Postsecondary Education

- Programs
 - Financial Assistance
 - Improving Entrance and Success
 - Postsecondary Education Forum

Postsecondary Education Grant (PEG) Program

- Awards for Arizona students attending private colleges and universities in Arizona
- Up to \$2,000 per year for up to 4 years
 - Limited to tuition, books and fees
- Student applies directly to the Commission
 - School defines eligibility
- Awards will begin to be distributed in February, 2007

Postsecondary Education Grant (PEG) Program

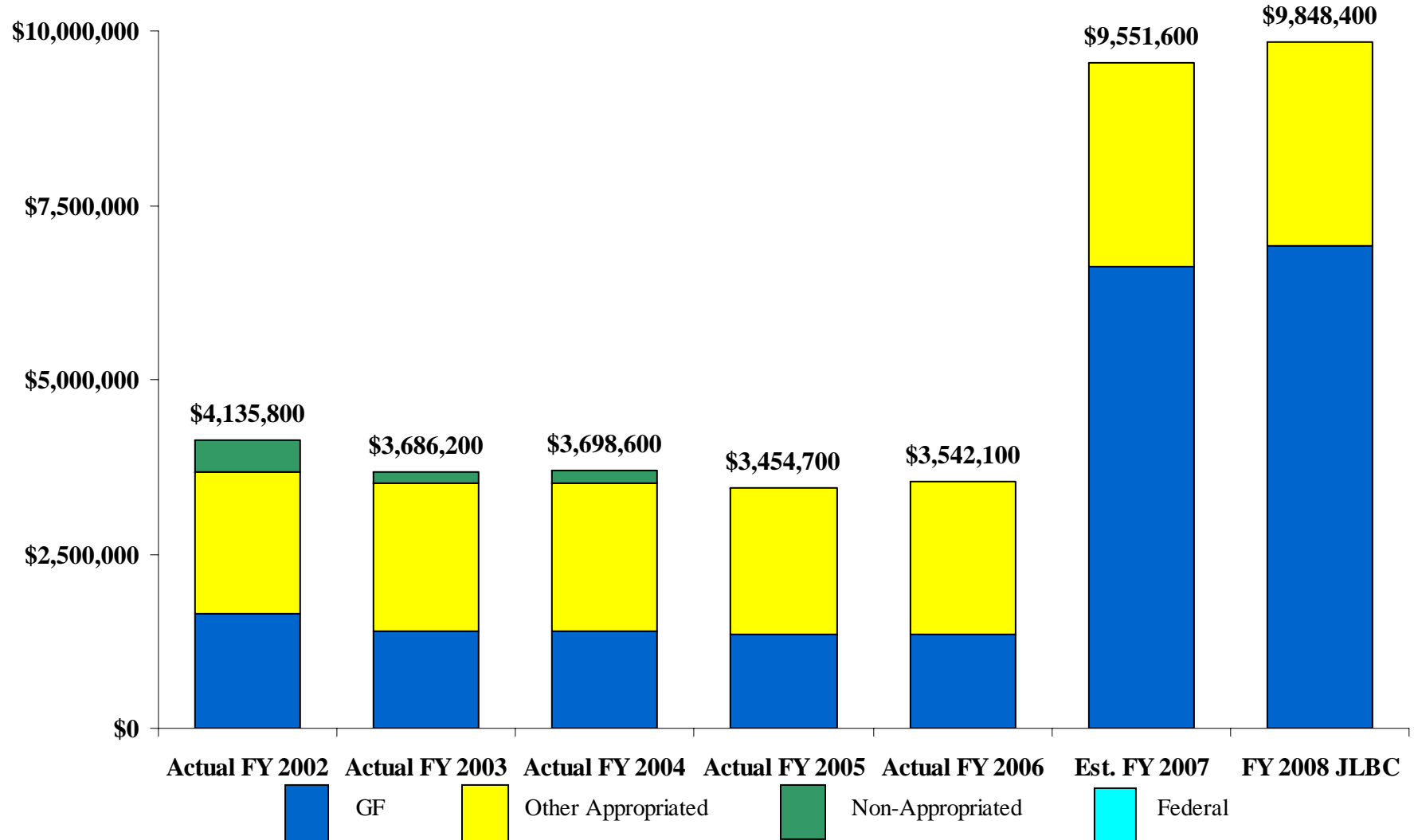
JLBC Baseline

- \$5.3 M GF in FY 2008
- Amount includes additional \$300,000 for web-based database

Executive

- \$5 M GF in FY 2008
- 10% of PEG may be used for administrative purposes

**Commission for Postsecondary Education
Total Funds FY 2002 - FY 2008**



Department of Public Safety

JLBC Baseline: \$(1.8) M GF

Exec: 1) \$8.9 M GF Program Expansions

2) Shift \$88.3 M GF to HURF/SHF

<u>GF Changes from FY 07</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Fund Shifts	\$0	\$(87.2) M
2. Highway Patrol	\$(3.7) M	\$(219) K
3. GITEM	\$0	\$5.0 M
4. Criminal Info./Crime Lab	\$216 K	\$1.1 M
5. Info. Technology /Other	\$(379) K	\$617 K
6. Interoperability	\$2.2 M	\$2.2 M
7. AZNet/Technical	\$(128) K	\$194 K
Total GF	\$(1.8) M	\$(78.3) M

JLBC Baseline -- Executive Budget Fund Shifts

<u>JLBC Baseline Shifts</u>	<u>General Fund</u>	<u>Other Fund</u>
\$1.6 M SETIF Backfill of MVLIE	\$0	\$0
- Would be used for Operating Costs; \$4.2 M from SETIF remains for Capital Expenses		
<u>Executive-Only Budget</u>	<u>General Fund</u>	<u>Other Fund</u>
Highway Patrol Fund Shortfall	\$1.1 M	\$(1.1) M
Highway User Revenue Fund (HURF)	\$(56.8) M	\$56.8 M
State Highway Fund (SHF)	\$(31.5) M	\$31.5 M
Total - Executive	\$(87.2) M	\$87.2 M

HURF & Highway Fund Shifts

- Permanent statute limits DPS' Highway Patrol allocation from HURF and Highway Fund to \$10 M each
- When allocated to DPS highway patrol, HURF/Highway Fund monies are not available for state road construction

DPS HURF/Highway Fund Allocations Include:

FY 2006	\$106 M
FY 2007	\$20 M
-\$86 million freed up for road construction	
FY 2008 JLBC Baseline	\$20 M
FY 2008 Executive	\$108 M
-\$88 M General Fund Savings	
-Road funding loss offset by 30-year bonding proposal	
FY 2009 Executive	
-\$88 M shifted back to the General Fund	\$20 M

JLBC Baseline -- Executive Budget

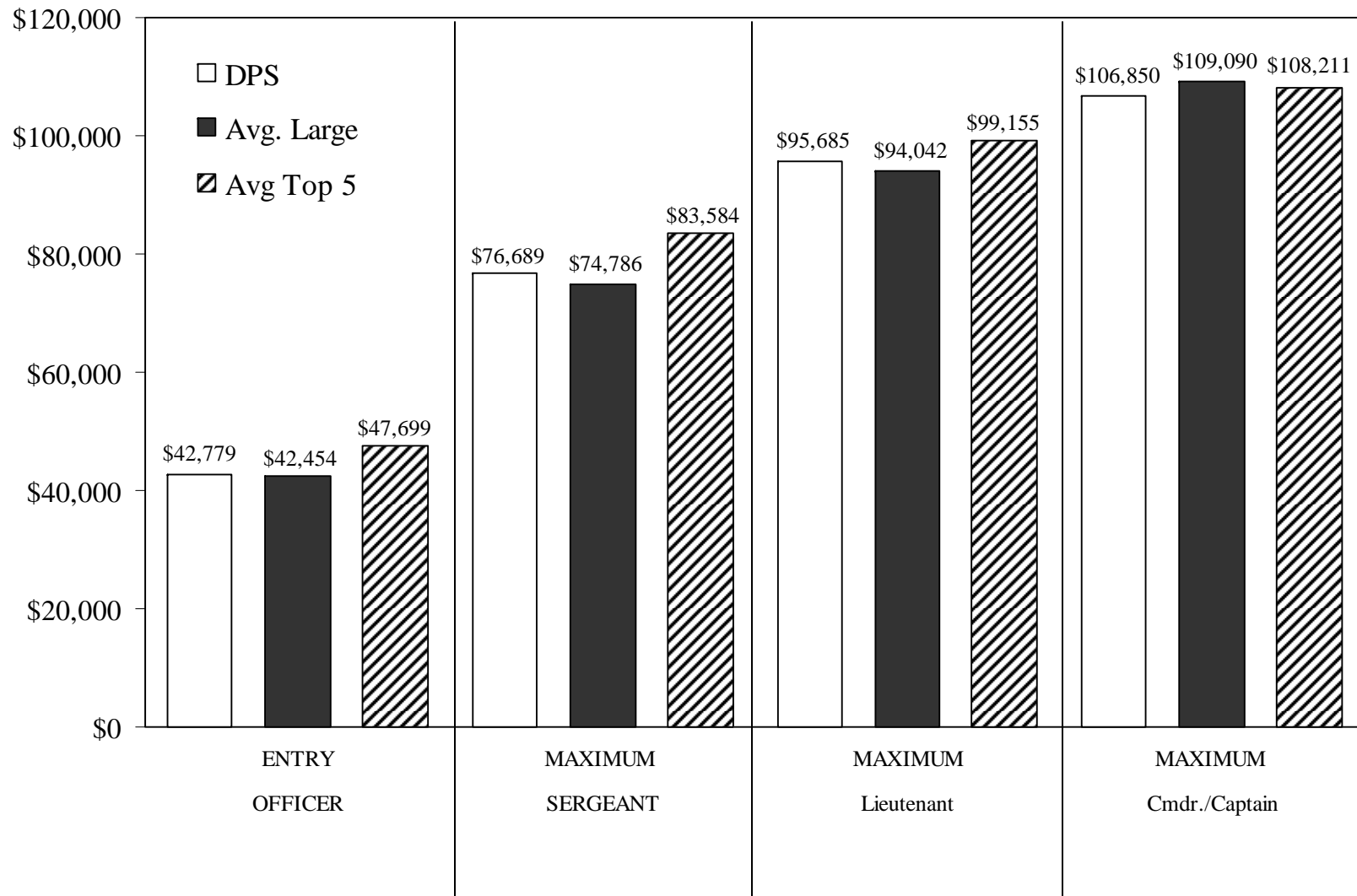
Highway Patrol Related

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Sworn Officer Promotions	\$779 K GF	\$540 K GF
2. Sworn Officer Pay	\$673 K OF	\$2.5 M GF/OF
3. 8 Civilian School Bus Inspectors	\$0	\$943 K GF
4. 8 Motorist Assist & Detention Officers	\$0	\$727 K GF
5. 5 Background and Polygraph Positions	\$0	\$390 K GF
6. Other Adjustments	\$(5.6) M GF/OF	\$(5.6) M GF/OF
Total – General Fund	\$(3.7) M	\$(219) K
Total – Other Fund	\$(466) K	\$(265) K

Sworn Salary Adjustments

- Parity Compensation Fund (PCF) receives 1.51% of Vehicle License Tax (VLT) revenues
- Prior to any adjustments, DPS pay across all sworn classifications is on average:
 - 1.3% higher than the average of the 14 Law Enforcement agencies in Arizona who employ in excess of 100 Sworn employees; and
 - (10.3)% below the 5 highest paying Law Enforcement agencies for each classification
- JLBC Baseline of \$673 K provides an average increase of \$425 (or 0.74%) per sworn employee
- Executive provides on average a \$1,579 (or 2.8%) salary increase per sworn employee
- DPS can determine the allocation, unless specified by the Legislature

DPS Sworn Personnel Salaries Relative to Market ^{1/}



^{1/} Market Salary figures were provided by DPS and are as of August 2006 and assumes the market's distribution among classifications are the same as DPS.

Gang and Immigration Intelligence Team Enforcement Mission (GITEM)

FY 07 GITEM appropriation is comprised of 3 components, including:

- \$9 M for Existing Gang Enforcement/Investigation/Interdiction
- \$10 M for Immigration Enforcement/Security/Personnel/Local Grants
- \$7 M for 100 DPS Sworn Officers for Gang & Immigration Enforcement

In FY 07, DPS Anticipates Expending/Hiring:

- \$9 M (of \$9 M) for On-going GITEM Functions
- \$2.3 M (of \$10 M) for Local Officers Supported by GITEM & Equipment
 - Local officer would be 10 federal Border Patrol agents (non-DPS employees) assigned to aid GITEM with their immigration efforts
- \$6.9 M (of \$7 M) for 48 (of 100) DPS Sworn FTE Positions
 - Of the 48 Positions, 37 were transferred from other departments & 11 new hires/transfers from other agencies

JLBC Baseline -- Executive Budget GITEM

Executive Proposal would:

- Add \$5 M (to the \$7 M) allowing DPS to fill all 100 FTE Positions
 - Allow DPS to use 15% to hire intelligence, support, and call taker staff
- Use \$1.4 M (of the \$10 M) for operating costs Arizona Counter-Terrorism Information Center (ACTIC)

Further discussion needed concerning footnotes governing the use of GITEM funding

JLBC Baseline -- Executive Budget

Criminal Information and Scientific Analysis

	<u>JLBC Baseline</u>	<u>Executive</u>
1. 10 Crime Lab Positions	\$978 K	\$1.2 M
– Executive includes 13 Positions	OF	OF
2. Crime Lab Equipment	\$133 K	\$0
	OF	
3. 4 Sex Offender Compliance Positions	\$216 K	\$188 K
	GF	GF
4. 11 Criminal Justice Services Positions	\$0	\$596 K
		GF
5. Tribal Partnerships	\$0	\$308 K
		GF
	<hr/>	<hr/>
Total – General Fund	\$216 K	\$1.1 M
Total – Other Fund	\$1.1 M	\$1.2 M

JLBC Baseline -- Executive Budget Information Systems and Other

	<u>JLBC Baseline</u>	<u>Executive</u>
1. Mobile Data Computers	\$(379) K GF	\$(379) K GF
2. Contact Tracking	\$0	\$92 K GF
3. Computer Replacement	\$0	\$709 K GF
4. Tri-Agency Disaster Recovery	\$0	\$669 K OF
5. GOHS Matching Funds	\$0	\$195 K GF
Total – General Fund	<hr/> \$(379) K	<hr/> \$617 K
Total – Other Fund	\$0	\$669 K

Statewide Interoperability Design

Interoperability

- Most local 1st responders cannot use DPS system due to lack of compatible equipment and common frequency

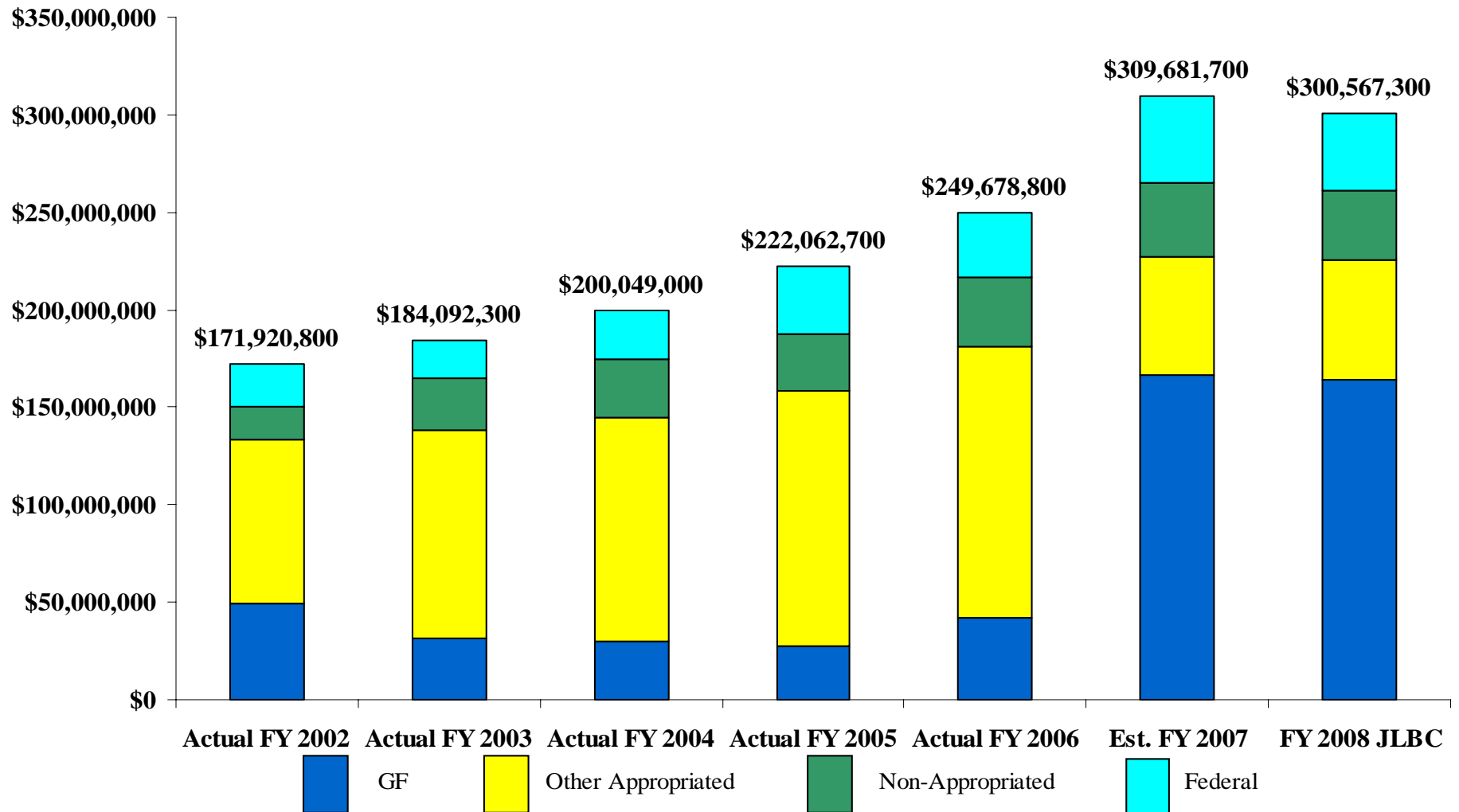
Public Safety Communication Commission (PSCC)

- The PSCC is developing a system to provide interoperability between public safety agencies
 - \$7.6 M already appropriated, \$2.3 M has been expended
 - currently working on a conceptual design and will deploy a pilot project in FY 2008
- The FY 2008 JLBC Baseline and the Executive budget include:
 - \$2.2 M from the General Fund in FY 2008 for detailed design of the long-term solution
- Goal of full statewide interoperability in FY 2014

Update on Microwave Towers

- DPS is seeking \$47 M to replace and repair microwave towers
- In the 2006 session, \$7.6 M was appropriated over 3 years
- In addition, Legislative intent was to add \$4.8 M of federal Homeland Security money over 3 years
 - The State Department of Homeland Security says no federal Homeland Security money is left to fund this project

Department of Public Safety Total Funds FY 2002 - FY 2008



Department of Revenue

What Is BRITS?

- DOR contracted for a new revenue collection computer system in September 2002 (Business Reengineering/Integrated Tax System)
- Goal was to have sales, corporate, and individual income taxes share a single database to improve enforcement and customer service
 - Sales and corporate income taxes have been converted
- Paid by gain-sharing of increased enforcement revenue
 - 85% to contractor/15% to state
- Original cost was \$129.7 million for an August 2006 completion date
- Current cost is \$154.3 million, including \$24.6 million for 2 contract amendments. Now scheduled to be completed in February 2008.

DOR Seeking Funding to Run BRITS Internally

- Base budget includes \$1.2 million for operational support of BRITS

Changes in FY 08 Budget

	JLBC	
	<u>Baseline</u>	<u>Exec</u>
BRITS One-Time Equipment	\$(360) K	\$(360) K
BRITS Software Licensing Fees	360 K	--
16 IT Positions to Run BRITS Internally	--	\$1.4 M

- DOR had originally requested \$8.4 M in FY 08 and \$3.9 M in FY 09 for both DOR IT staff and consultants
 - DOR may seek the difference through a BRITS contract amendment

How Are Contract Amendments Handled?

- Contract amendments are funded out of General fund revenues which exceed the baseline and do not require an appropriation
- In FY 07, JLBC is authorized to review BRITS contract amendments
- JLBC Baseline continues in FY 08 the session law requiring legislative authorization prior to any future BRITS contract amendments that would increase the cost of the contract

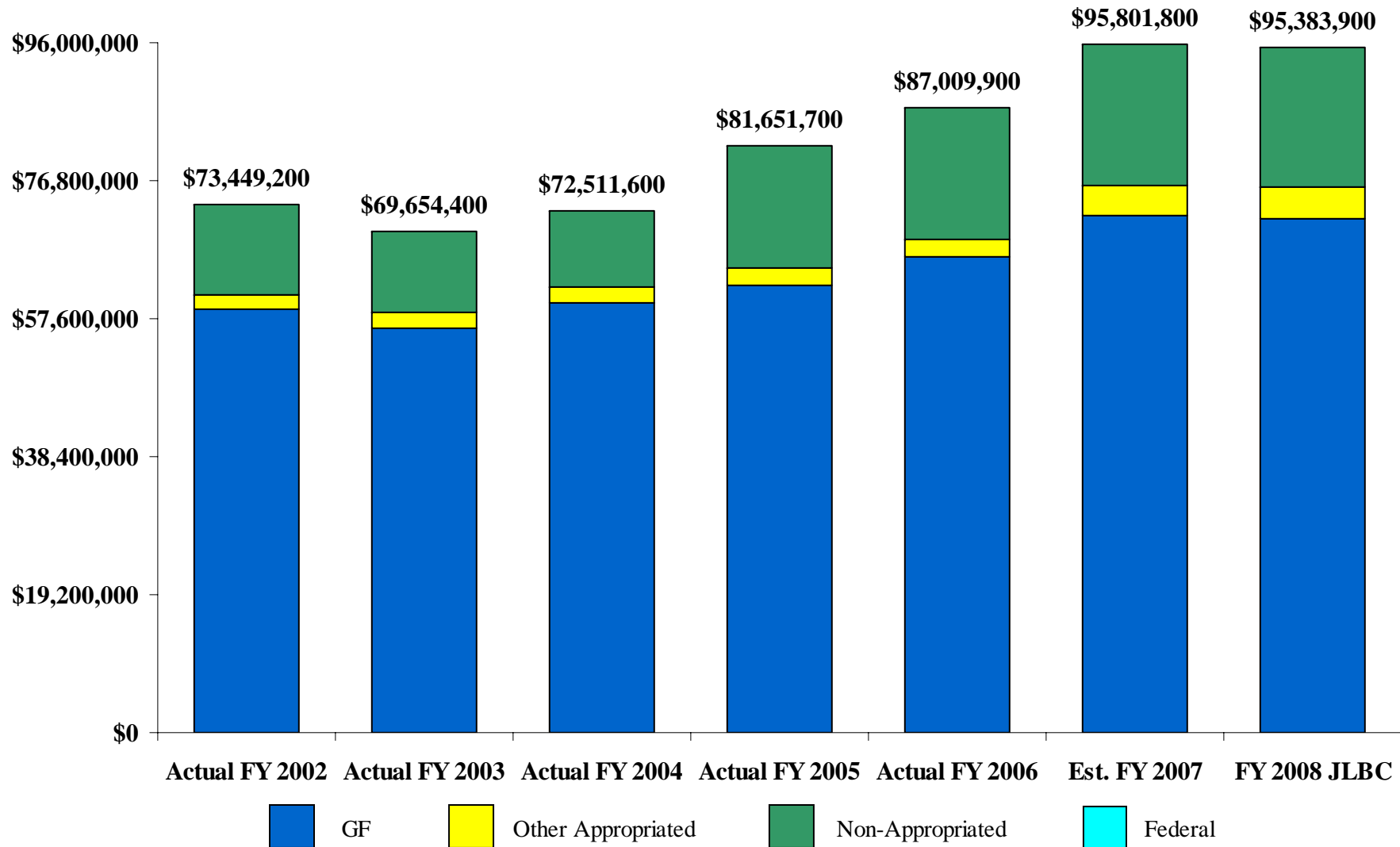
Has BRITS Paid for Itself Already?

- \$216 million of revenue through November 2006, including:
 - \$51 million from discovery tied to specific taxpayers
 - \$165 million from efficiency revenue above baseline amounts
- BRITS baseline was not adjusted for population or economic growth, since the contract prohibits such adjustments
- Revenues above the baseline attributed to BRITS include audit revenues unrelated to the BRITS program
- DOR believes that BRITS will clearly generate enough revenues to pay for the project over the 10-year contract period

Two Other Baseline – Executive Differences

- Tobacco Stamps: Executive adds \$18,900 GF and \$107,300 Tobacco Tax in FY 08 and \$26,000 GF and \$147,400 Tobacco Tax in FY 09 for tobacco stamp costs
 - Baseline does not include. The recent 80 cent/pack tobacco tax increase could decrease the sale of cigarettes
- AZNet: Baseline includes \$(202,100) GF in FY 08 and FY 09 to reflect one-time funding for AZNet telecommunications charges
 - Executive retains the funding

**Department of Revenue
Total Funds FY 2002 - FY 2008**



School Facilities Board

Revised
2/6/07

School Facilities Board Programs

Building Renewal

- Maintain facilities at the minimum guidelines.

New School Construction

- Provide land and facilities to districts for student growth.

Emergency Deficiencies Correction

- Correct capital related emergencies.

FY 2008 General Fund Amounts

\$ in millions

JLBC

	<u>Baseline</u>	<u>Executive</u>
--	-----------------	------------------

New Construction:	\$370.0	\$ 0
Existing Debt Service:	72.0	72.0
Building Renewal:	105.6	86.3
Operating Budget:	<u>1.7</u>	<u>1.9</u>
TOTAL FUNDING:	\$549.3	\$160.2

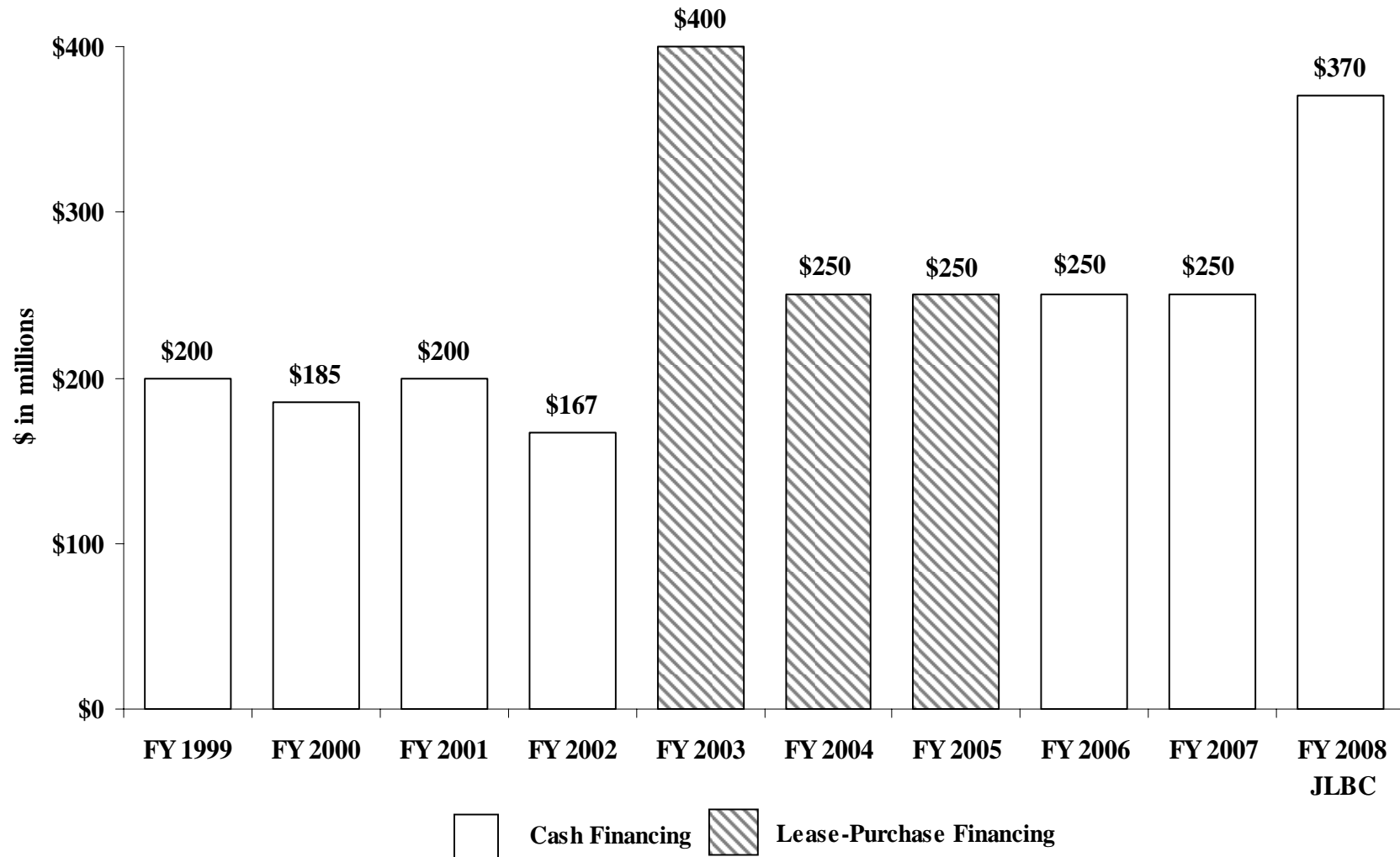
JLBC Baseline Adds \$120 M for New Construction

- To provide \$370 M to continue cash financing new construction
 - 15 new projects for 13,600 students
 - 43 continuing projects for 44,200 students that will be completed
- Increase due to:
 - Declining revenue sources
 - Inflation adjustment
 - Increased FY 2006 approvals
- Uncertainty about projections
 - Housing permits
 - Minimum guidelines

Executive Proposes \$399 M for New Construction

- Instead of continuing to pay cash, Executive proposes to finance new school construction through lease-purchase financing.
 - Adds \$399 M to lease-purchase finance new school construction, an increase of \$149 M above the FY 07 funding amount.
 - Estimated debt service of \$26 M GF begins in FY 09 (assumes 4.69% interest rate for 30 years).

New School Facilities Funding History
FY 2008 Continues Cash Financing Enacted in FY 2006
(Represents General Fund contribution -- not actual spending)



Other Exec. New Construction Proposals

Kindergarten Space

- Counts kindergarten students as full ADM in New Construction formula.
 - FY 08 cost of \$7.9 M for A&E fees as part of lease-purchase financing.
 - Total cost of \$157.4 M over 6-years.

Energy Efficiency

- Districts purchase energy efficiency equipment.
 - Annual cost of about \$930,400 as part of lease-purchase financing.

New Construction Lease-Purchase

- Executive proposal:
 - Lease-purchase financing for New School Construction including:
 - New Schools: \$399.0 M
 - Kindergarten: \$ 7.9 M
 - Energy: \$ 1.0 M
 - TOTAL: **\$407.9 M**

Debt Service Costs

- Lease-purchase finance \$408 M for New School Construction
 - Executive assumptions:
 - 4.69% interest, *30 years*
 - Total Interest: \$360 M
- If 15-year term were instead used, costs would be:
 - Total Interest: \$169 M

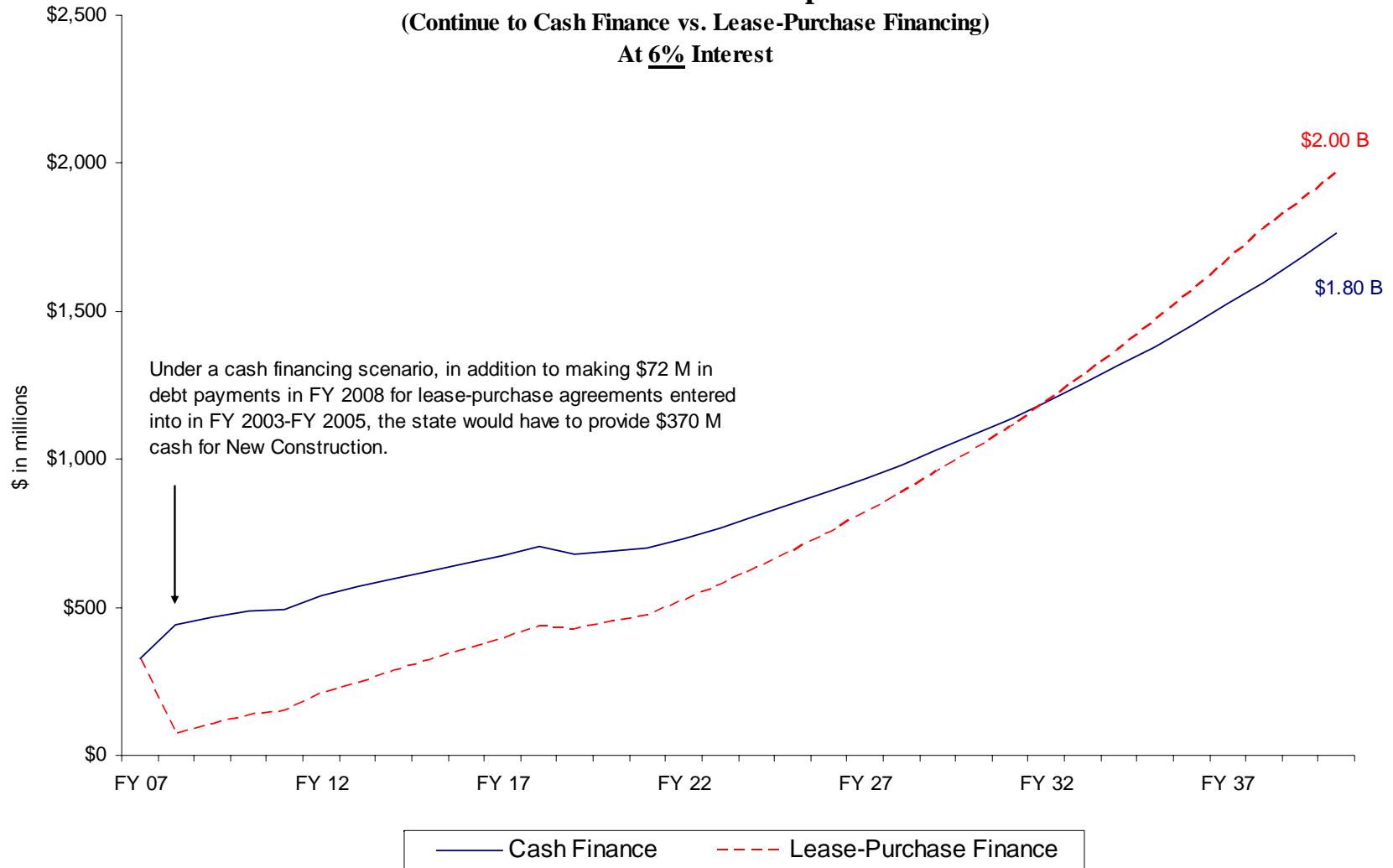
What is the Long-Term Impact of Debt Financing New School Construction?

- When the Legislature authorized SFB to enter into lease-purchase agreements, there were a number of questions members had with regard to the long-term impact:
 - What is the annual cost of cash vs. lease-purchase financing to the state over the long-run?
 - What is the total outstanding debt that would be incurred from lease-purchase financing over the long-run?
 - What portion of total General Fund expenditures would lease-purchase payments represent?

Long-Term Impact of Debt Financing New School Construction: Assumptions

- Long-term estimates are very sensitive to small changes in assumptions
 - Payment term (30 years): to match length of proposed financing
 - Interest rate (6% vs. 5%)
 - Inflation and population growth (5%)

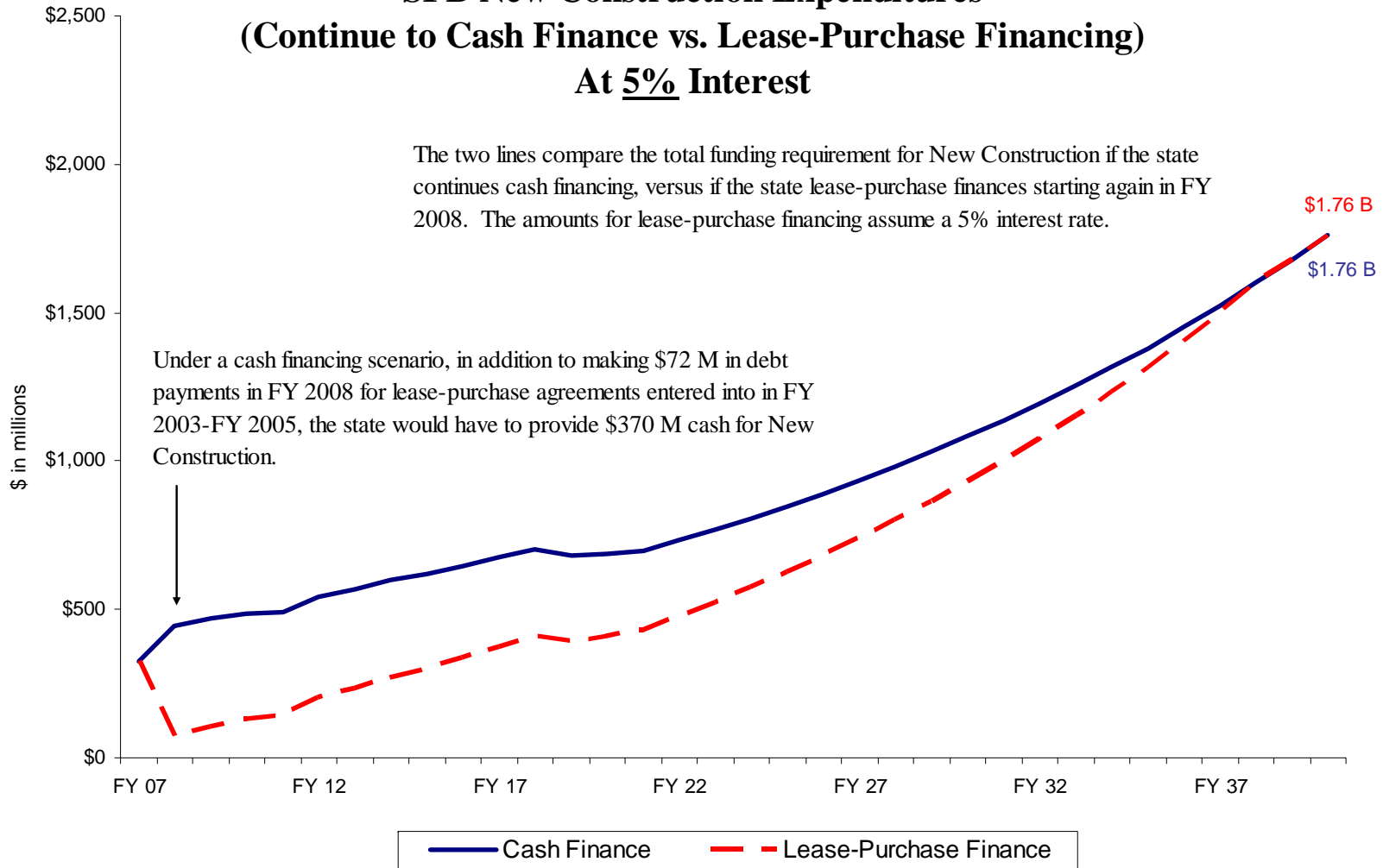
SFB New Construction Expenditures
(Continue to Cash Finance vs. Lease-Purchase Financing)
At 6% Interest



Note: Assumes \$370 M base for New School Construction in FY 2008. Base amount increased by 5% annually.

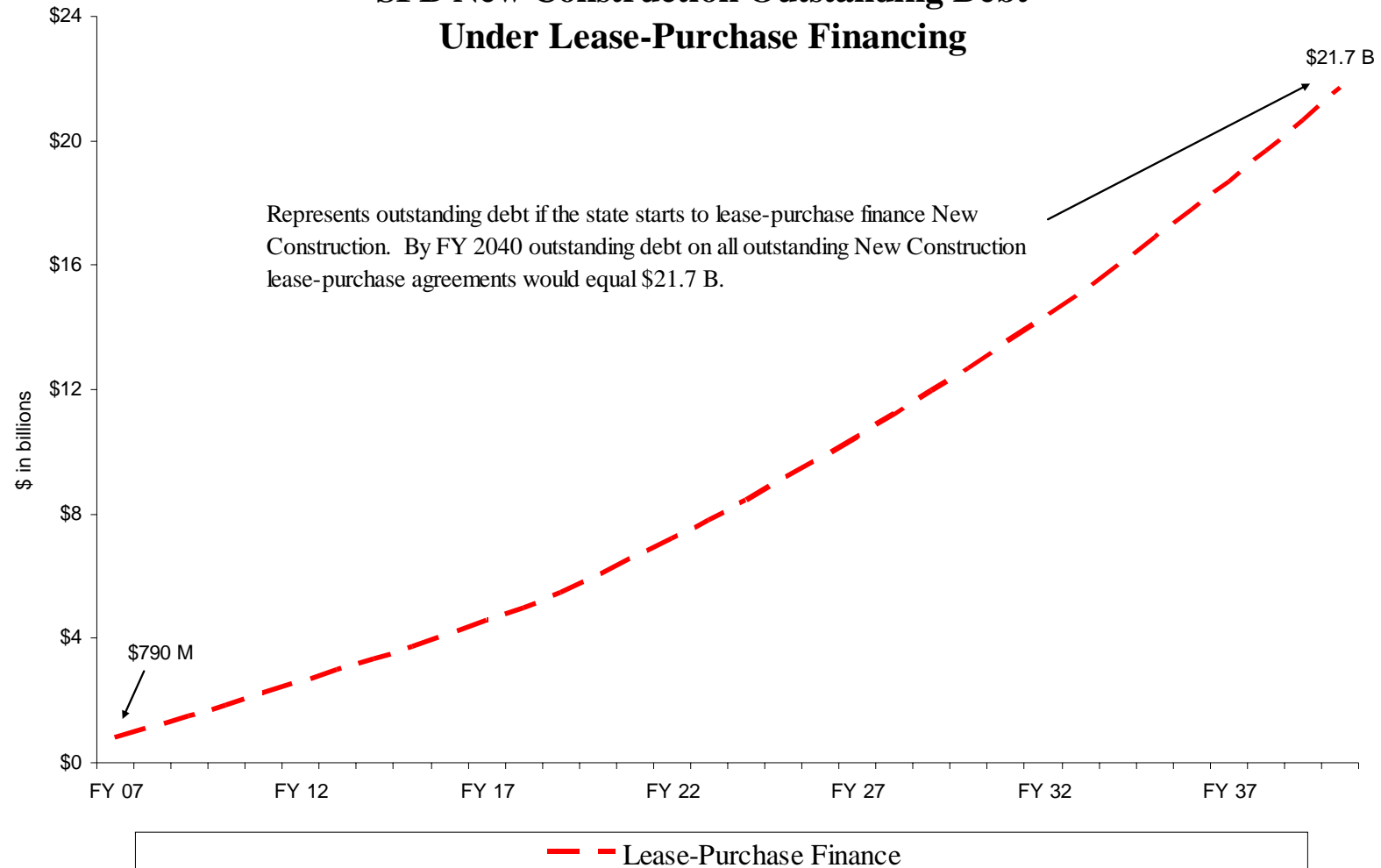
SFB New Construction Expenditures (Continue to Cash Finance vs. Lease-Purchase Financing) At 5% Interest

The two lines compare the total funding requirement for New Construction if the state continues cash financing, versus if the state lease-purchase finances starting again in FY 2008. The amounts for lease-purchase financing assume a 5% interest rate.



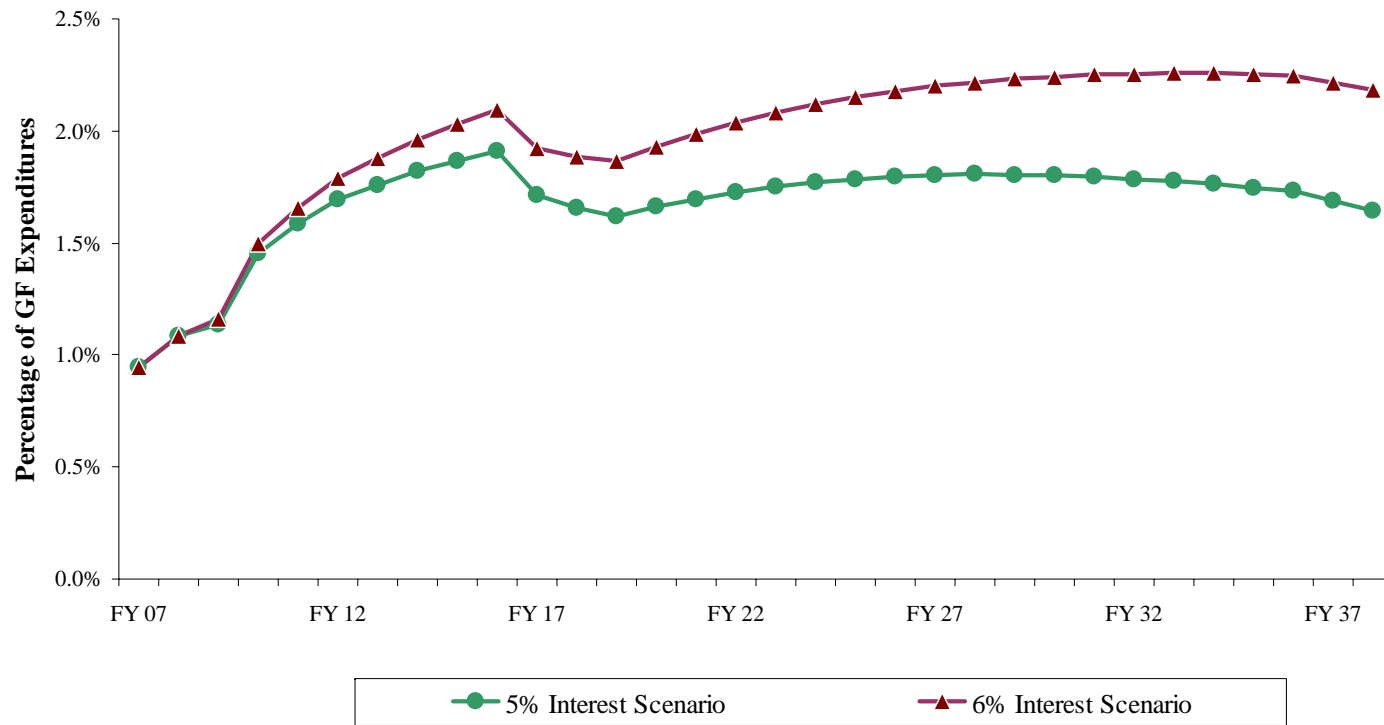
Note: Assumes \$370 M base for New School Construction in FY 2008. Base amount increased by 5% annually.

SFB New Construction Outstanding Debt Under Lease-Purchase Financing



Note: Assumes \$370 M base for New School Construction in FY 2008. Base amount increased by 5% annually.

**What is Long-Term New Construction Debt Service as a
Percentage of General Fund Expenditures?
5% vs. 6% Interest Over 30 Years**



Note: Assumes 7.6% annual increase in total General Fund expenditures based on 10-year average.

Building Renewal Funding

JLBC Baseline

- Adds \$19.3 M to fully fund revised formula.

Includes:

JLBC adopted inflation (12.2%)	\$10.6 M
Building age increases	\$ 7.3 M
New space	\$ 1.4 M

- Based upon updated information, the \$19.3 M increase can be reduced to \$15.4 M.

Executive

- Does not add any funding to FY 07 amount of \$86.3 M.
- Does not revise formula.
 - Permanent cost would be \$190.2 M.

Building Renewal Formula Changes

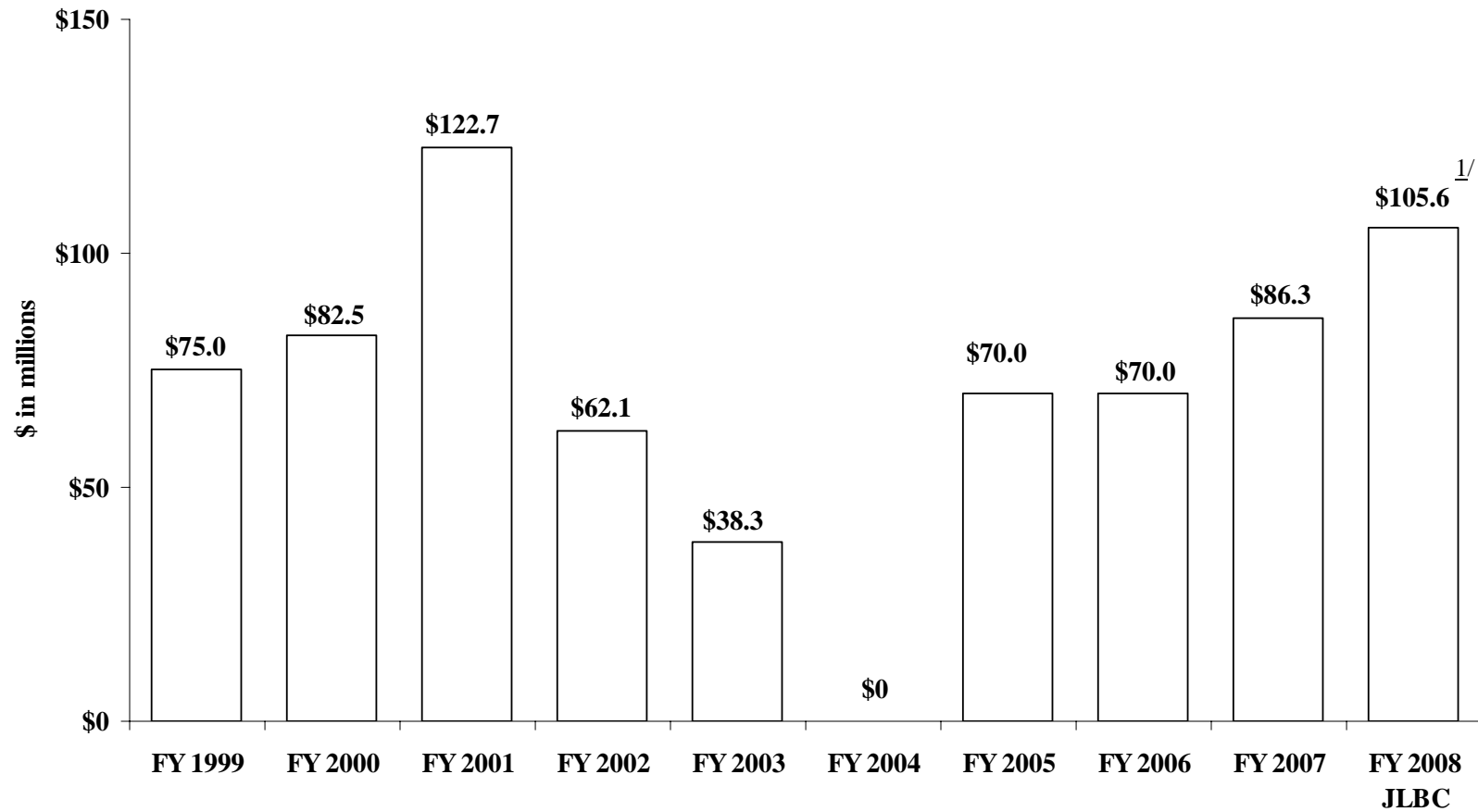
- Cap building age at 30 years.
- Equalize funding for portable buildings.
- Use replacement cost per square foot.
- Use square footage per student designated by minimum adequacy guidelines.

Building Renewal Lawsuit

- In October 2006, AZ Superior Court issued a summary judgment in favor of the state.
 - Plaintiff school districts' claim was premature.
 - The districts had not made an effort to obtain all available state funding resources to maintain their facilities at minimum guidelines.

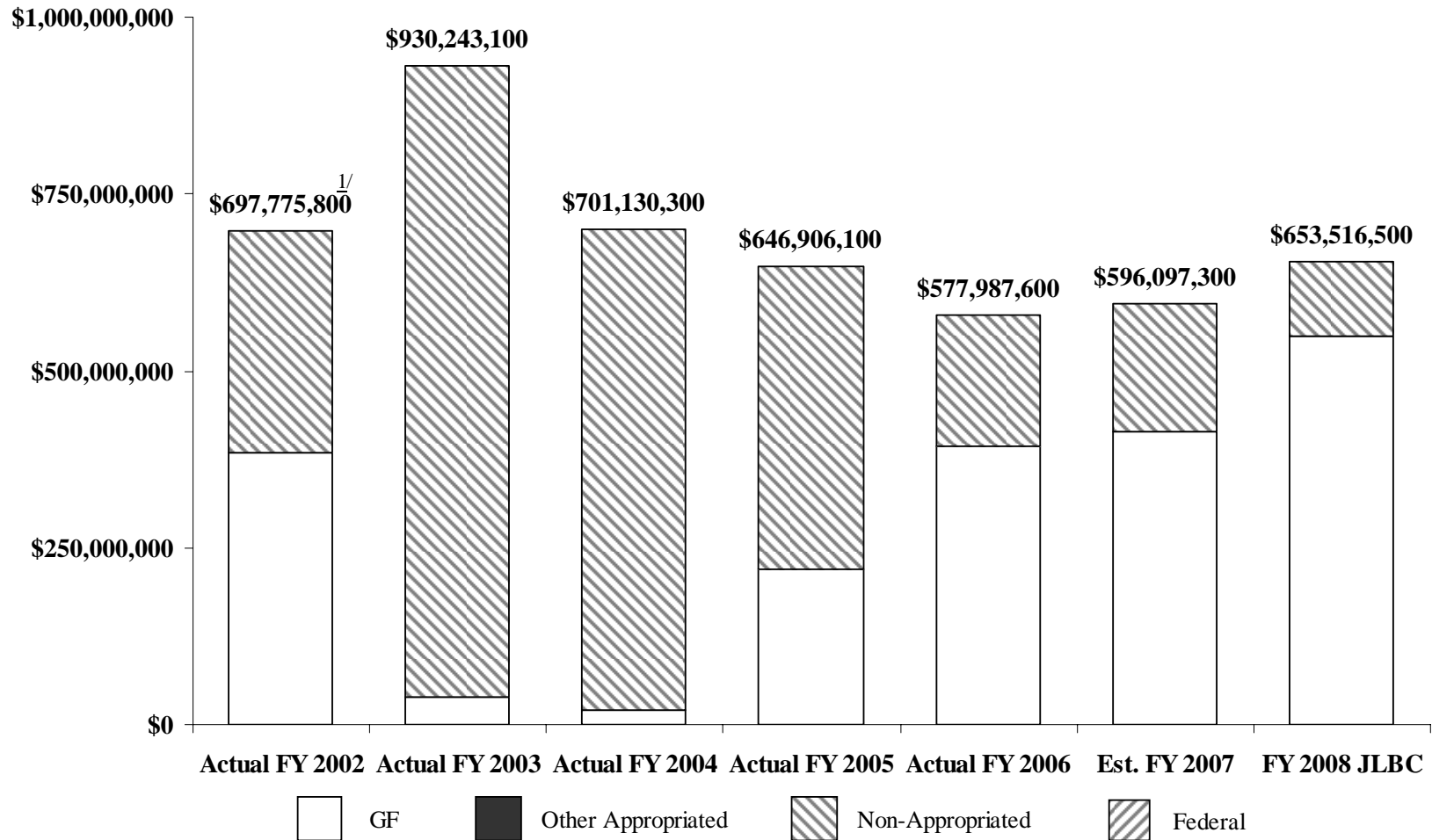
Building Renewal Funding History

Total Funding Provided = \$712.5 M GF



^{1/} Based on updated information, the actual formula amount would be \$101.6 M. The FY 2008 amount represents the estimate included in the JLBC Baseline.

School Facilities Board **Total Funds FY 2002 - FY 2008**



1/ Does not account for transfers made during FY 2002 totaling \$150 M from the Building Renewal and New School Facilities Funds to the General Fund.

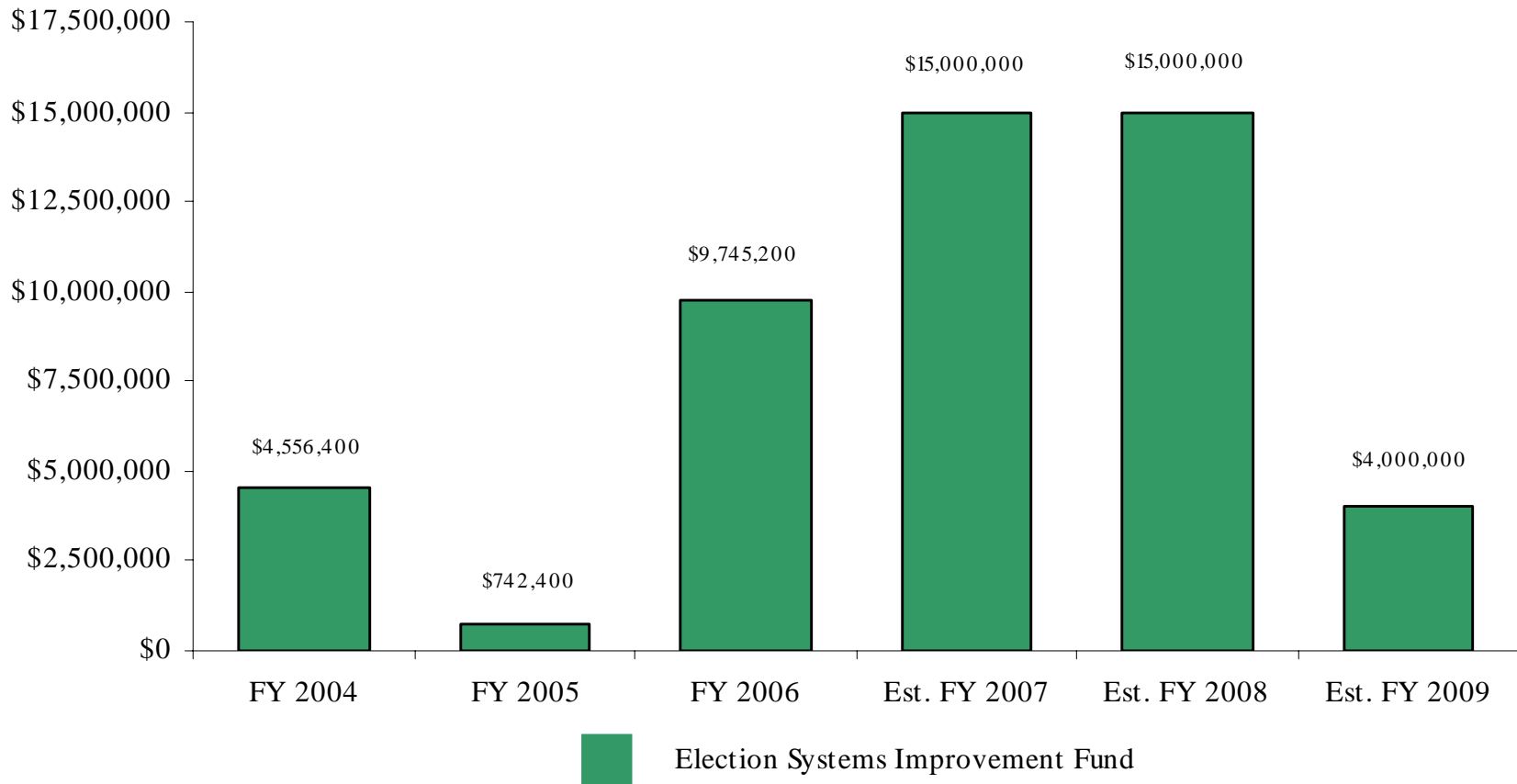
Department of State – Secretary
of State

Comparison of Executive Recommendation and JLBC Baseline Changes from FY 2007

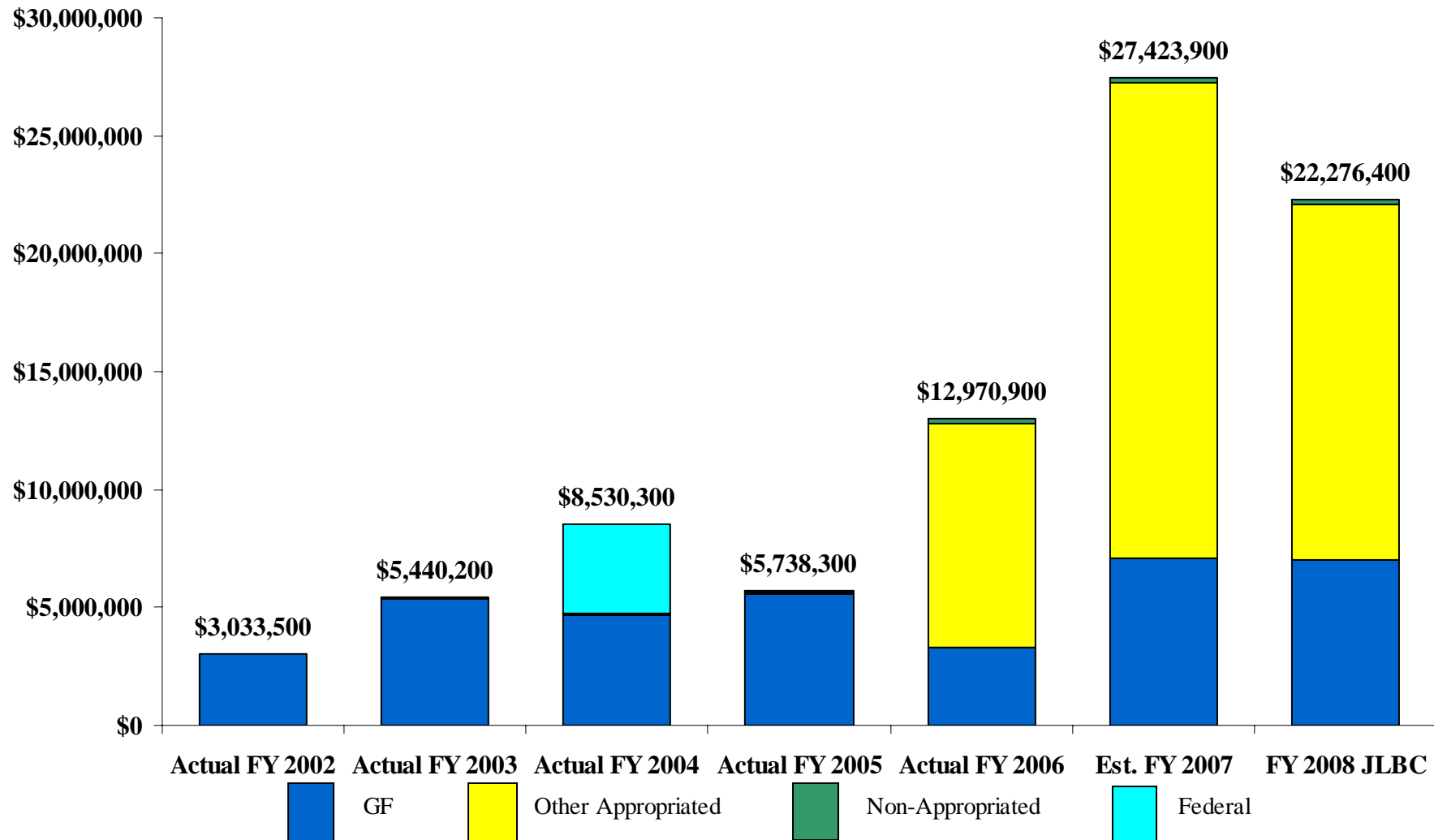
	<u>JLBC Baseline</u>	<u>Executive</u>
Ongoing OOE	\$60 K	\$27.4 K
Microfilming	\$92 K in FY 08	\$92 K in FY 08
	\$30.4 K in FY 09	\$30.4 K in FY 09
High Speed Copier	\$(200) K	\$(200) K
Elections	\$0	\$0

- Funded at \$3.4 M
- FY 2008 will fund Presidential Preference Primary in Spring 2008
- FY 2009 will fund Primary and General Election in Fall 2008

**HAVA Spending
FY 2004 - FY 2009**

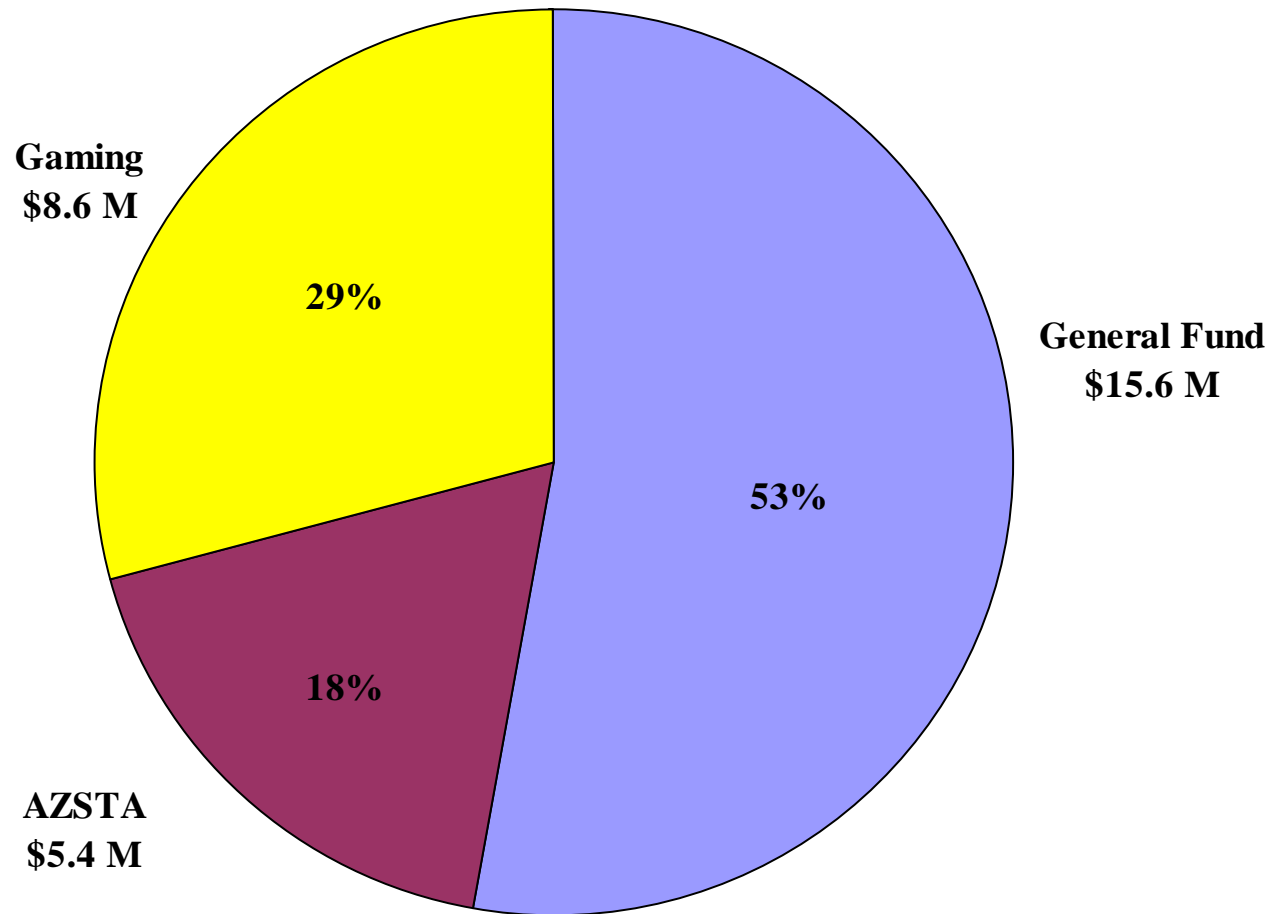


**Department of State - Secretary of State
Total Funds FY 2002 - FY 2008**



Office of Tourism

**Office of Tourism
Funding Sources in FY 2008**

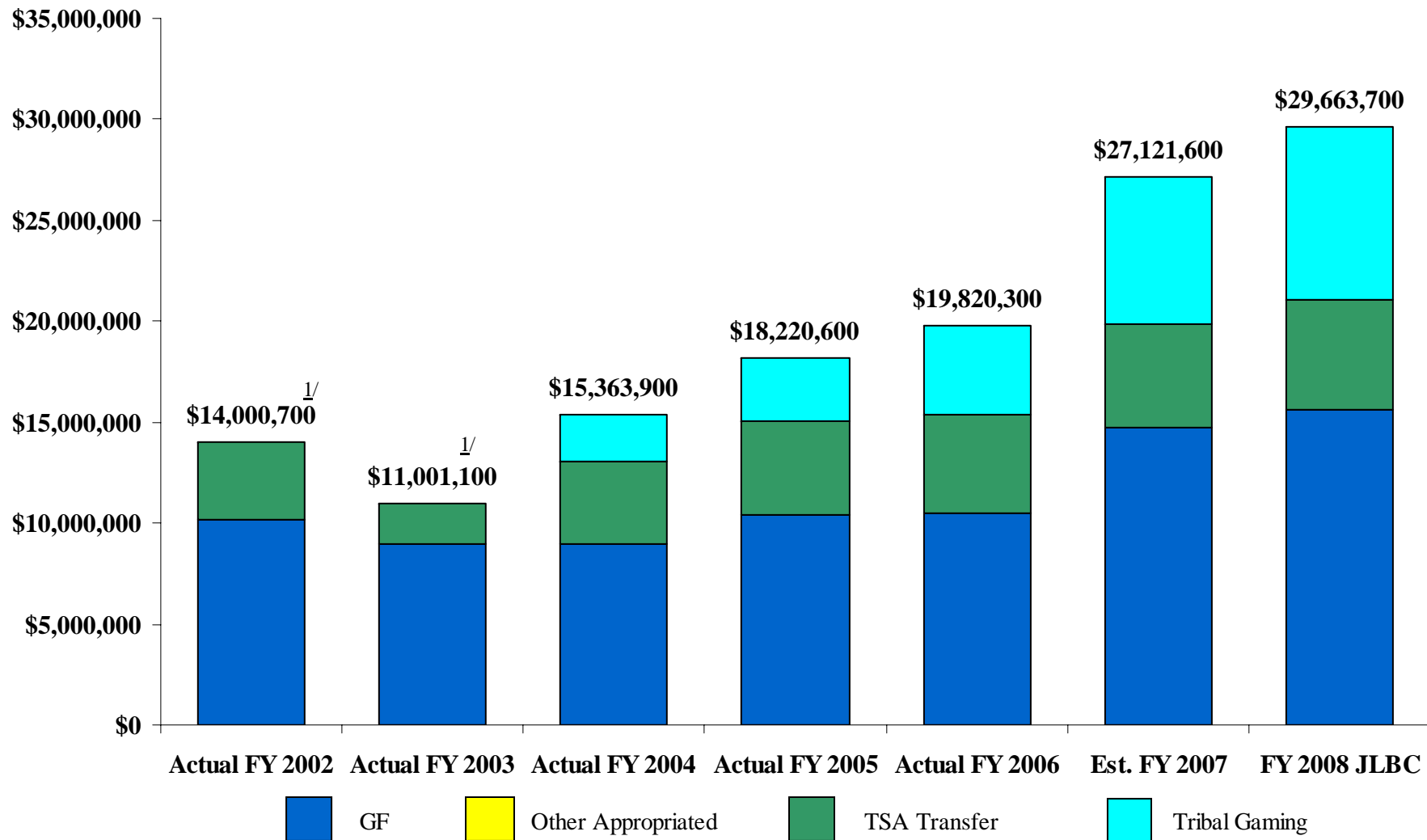


Tourism Total Budget = \$29.7 M

Funding Sources for the Office of Tourism

Sources of Funding	Fund	FY 2007	FY 2008
<u>Tourism Formula</u>			
● 3.5% of bed tax	General Fund	\$4,356,900	\$4,618,300
● 3% of amusement tax		1,494,900	1,584,600
● 2% of restaurant tax		<u>8,911,800</u>	<u>9,446,500</u>
Subtotal from Tourism Formula		14,763,600	15,649,400
 <u>Sports & Tourism Authority</u>			
● Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302)	Tourism Fund	5,126,400	5,382,700
 <u>Tribal Gaming</u>			
● 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202)	Tourism Fund	<u>7,231,600</u>	<u>8,631,600</u>
Total		\$27,121,600	\$29,663,700

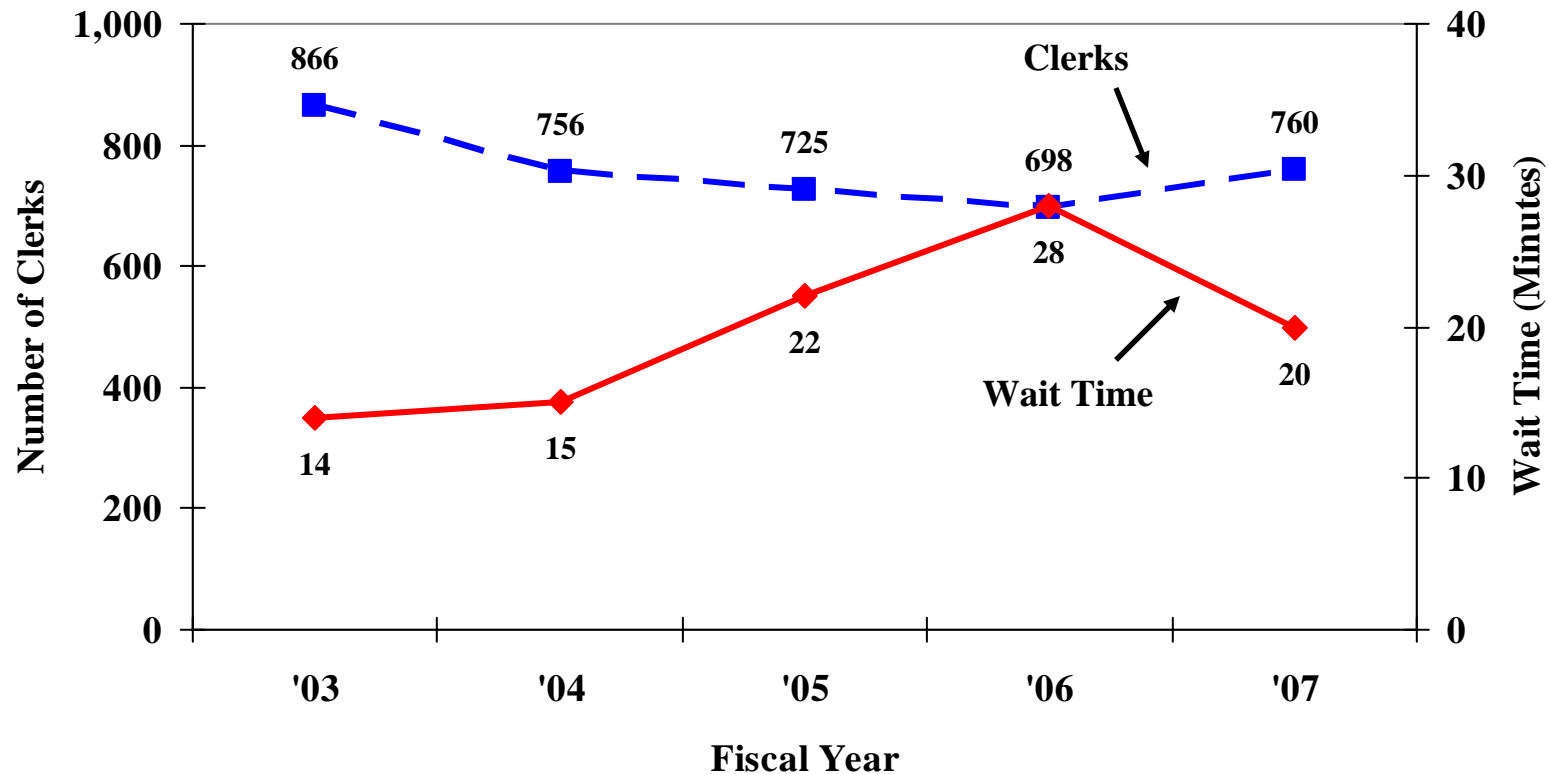
Office of Tourism Total Funds FY 2002 - FY 2008



Arizona Department of Transportation

MVD Wait Times Have Improved

Wait Times Have Declined, While Number of Clerks Rose



- Wait time understated – does not include total visit.
- Wait time should continue to improve. ADOT's goal is to fill 825 clerk positions.
- Number of customers declined (490,400) or (10.4)% since FY 2003.

Auditor General Findings

- Optimize internal resources to reduce consultant usage.
 - Auditor General notes that consultant payments increased 424% in the past decade.
 - ADOT requests 5% engineer pay raise and 21 FTE Positions.
- Improve and better document inspections.
 - 43 of 47 inspectors' diaries were incomplete.
 - 27 of 47 inspectors did not fill out required checklists.
 - Field inspectors found 66% of work met specs, but independent inspectors found that only 35% met specs.
- Improve contract audits.
 - Audits were backlogged, and 7 of 16 positions were vacant.
 - Staffing has improved to 92%, with 2 vacancies.

Federal REAL ID Act

- National standards for state driver's licenses and identification cards to be accepted as valid ID by the federal government.
- Establishes requirements to be met by May 11, 2008.
- Department of Homeland Security has not released specific guidelines regarding the changes that states need to make.
- It is unlikely that states will be able to meet the May 11, 2008 target date.
- ADOT expects to address implementation costs in next year's request for FY 2009.

JLBC Baseline - Executive Comparison

Changes to FY 2007 Budget

JLBC Baseline = \$7.9 M; Executive = \$15.1 M

	JLBC <u>Baseline</u>	<u>Exec</u>
Highways	\$7.5 M	\$15.7 M
MVD	386 K	1.5 M
Risk Management	0	(2.1) M
Other	400 K	378 K

- Almost all funding is from Highway Fund.
- Reflects operating not capital.

JLBC Baseline - Executive Comparison

Highways

	JLBC <u>Baseline</u>	<u>Exec</u>
Highway Maintenance	\$7.5 M	\$10.8 M
- Both add miles, material and cable barrier costs		
- Exec adds lighting and staff		
Engineer Pay	0	4.7 M
Rural Transit Planning	0	163 K

JLBC Baseline - Executive Comparison

MVD

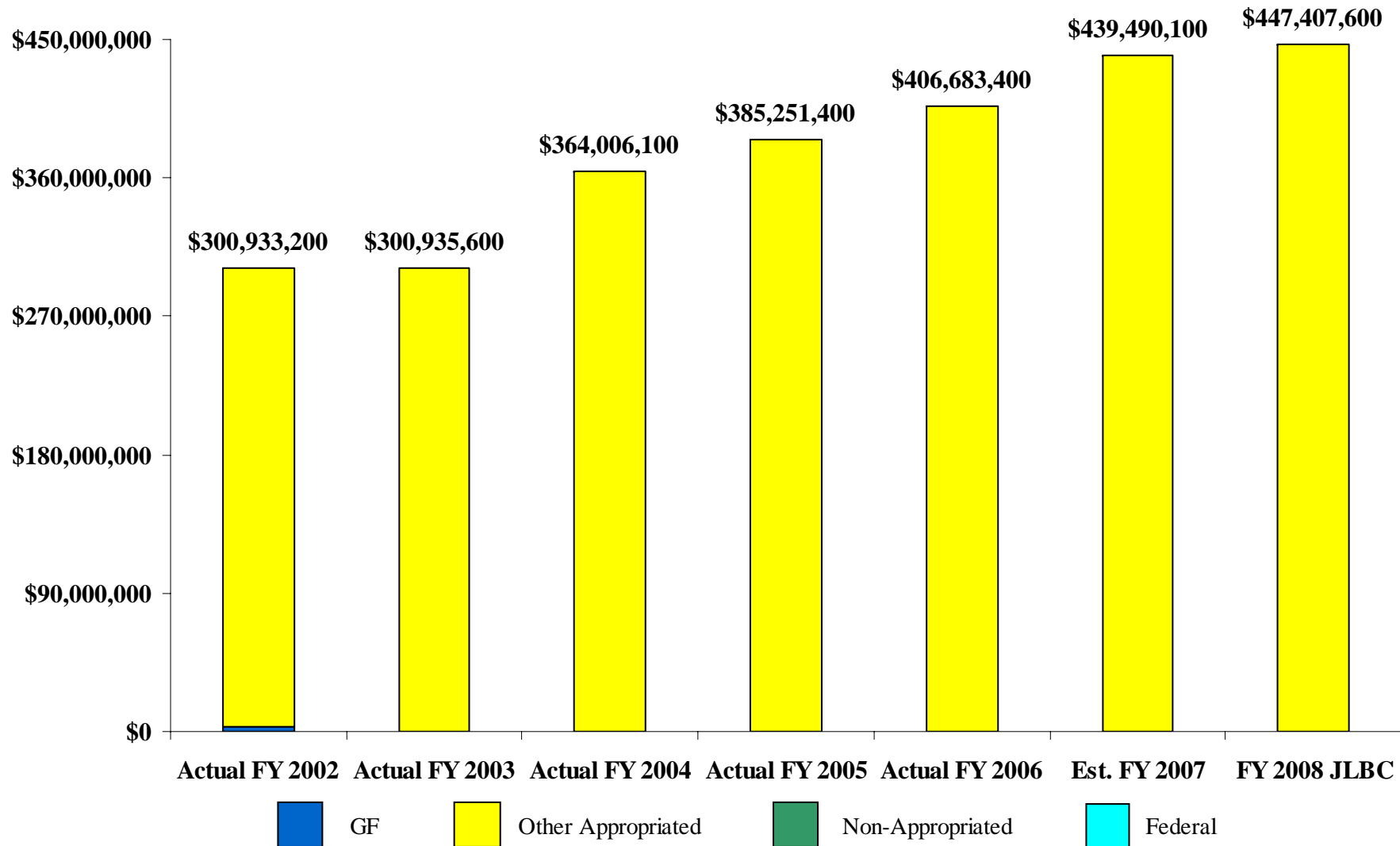
	<u>JLBC</u> <u>Baseline</u>	<u>Exec</u>
Customer Equipment	\$789 K	\$789 K
Third Party Workload	97 K	0
SETIF \$1.6 M Funding Shift	0	NA
- Shift from Motor Vehicle Fund to SETIF		
Fraudulent Document Reclassification	0	NA
- \$192 K for license plate surplus		
Vehicle Inspection Workload	0	239 K
Motor Carrier Workload	0	488 K
Computer Assessment	(500) K	0

JLBC Baseline - Executive Comparison

Aviation and Other

	<u>JLBC Baseline</u>	<u>Exec</u>
Plane Servicing Equipment	\$253 K	\$253 K
Airport Vehicles	147 K	0
Airport Phone System	0	125 K
Risk Management	0	(2.1) M

Department of Transportation - Operating Budget
Total Funds FY 2002 - FY 2008 1/



State Treasurer

JLBC Baseline Changes from FY 2007

- JLBC Provides an Annual Budget

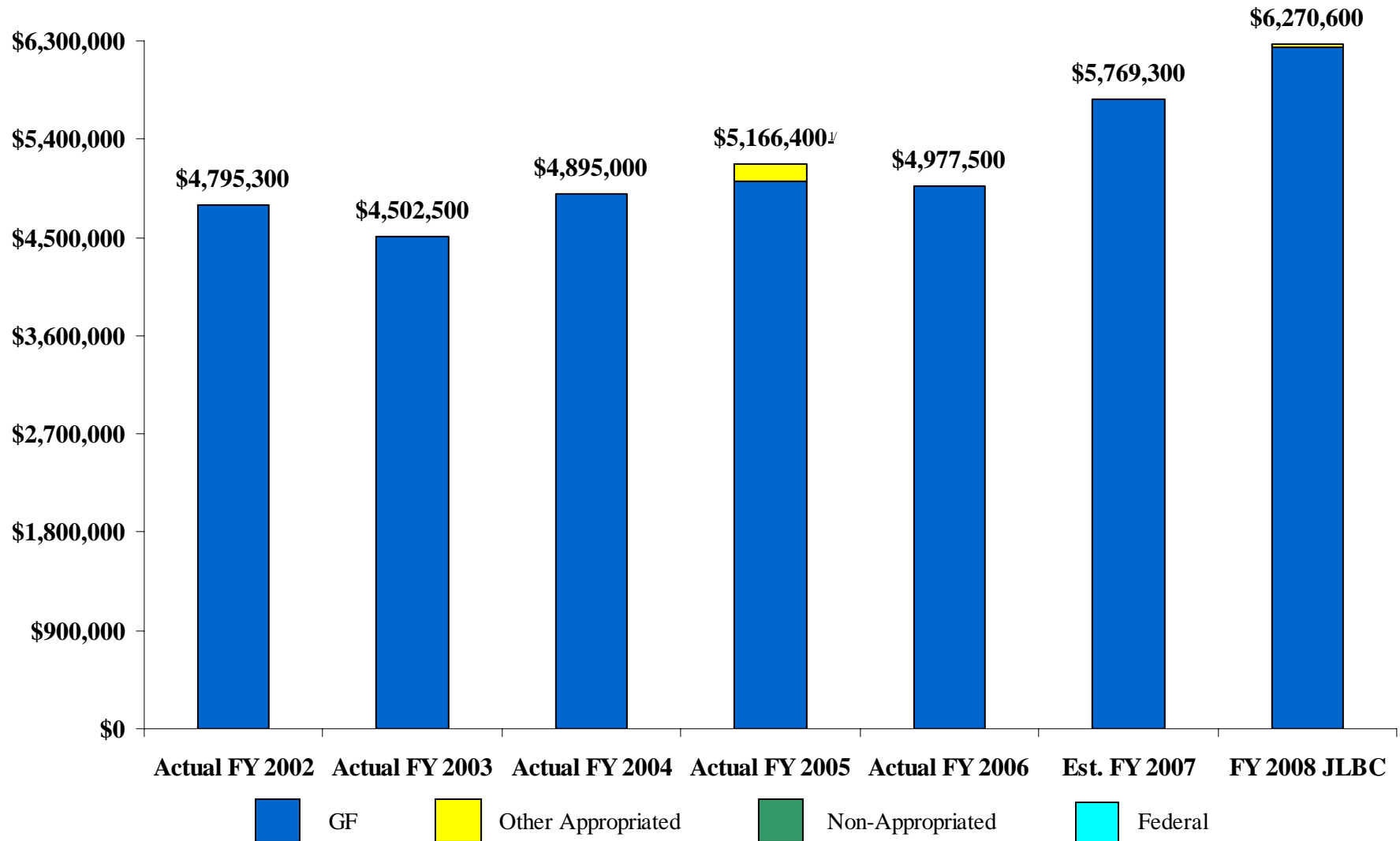
	General Fund	Other Funds
<u>Item</u>	<u>FY 2008</u>	<u>FY 2008</u>
JP Salary Annualization	\$173,500	\$-
Portfolio Order Management System	100,000	-
Remote Access	-	33,800
Business Process Re-engineering	80,000	-
IT Equipment Replacement Schedule	79,200	-
Offsite Network Storage	63,000	-
One-time AZNet Funding	(24,000)	-
Retirement Rates	<u>(4,200)</u>	<u>-</u>
Total	\$467,500	\$33,800

Executive Differences from JLBC

- Executive Provides a Biennial Budget

- No funding to annualize JP Salary Increase
- Includes \$123,500 from the General Fund in FY 2008 and FY 2009 for a Compliance Officer/Internal Auditor
- Retains AZNet Funding

State Treasurer
Total Funds FY 2002 - FY 2008



Universities

JLBC Baseline – Executive Comparison **Executive Funds \$69.9 M GF More in ‘08**

	<u>JLBC Baseline</u>	<u>Executive</u>
Enrollment Growth	\$20.0 M	\$17.0 M
Lease-Purchase Payments	\$34.6 M	\$34.6 M
Biomedicine	\$0	\$25.1 M
Financial Aid	\$0	\$9.8 M
One-Time Adjustments	\$(3.2) M	\$(1.7) M
Other Items	<u>\$(0.5) M</u>	<u>\$36.0 M</u>
FY 08 GF Major Issues	\$50.9 M	\$120.8 M

Arizona University System

FY 2008 Enrollment Growth Estimates

Campus	Formula Enrollment	Growth Percentage
ASU-M	49,083	3.2%
ASU-E	3,511	18.0%
ASU-W	6,523	3.6%
NAU	17,274	3.4%
UA-M	32,321	(0.5)%
UA-HSC	1,843	5.6%
TOTAL	110,555	2.6%

FY 2008 Proposed Enrollment Growth Funding (\$)

Campus	Executive Enrollment	JLBC Enrollment
ASU-M	\$9.2 M	\$10.8 M
ASU-E	3.3 M	3.8 M
ASU-W	1.4 M	1.6 M
NAU	3.5 M	4.4 M
UA-M	(1.0) M	(1.3) M
UA-HSC	0.6 M	0.7 M
TOTAL	\$17.0 M	\$20 M

Lease-Purchase Payment

- Authorized in 2003, \$34.6 M GF are advance appropriated for lease payments for university research buildings in FY 2008 through FY 2031. Both JLBC and Executive include:
 - \$14.5 M for ASU
 - \$5.9 M for NAU
 - \$14.2 M for UA
- The universities have used the funding generated from COP issuances totaling \$482.5 million to construct buildings that house research in the sciences, such as biomedicine and engineering

Biomedicine

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Research and Classroom Space	\$0	\$10.6 M
2. Class Size Expansion	\$0	\$6 M
3. Health Professions	\$0	\$4 M
4. Biomedical Informatics	\$0	\$2 M
5. College of Pharmacy	\$0	\$1.5 M
6. Telemedicine Program	\$0	\$1 M
Total – Biomedicine	\$0	\$25.1 M

Financial Aid

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Student Financial Assistance	\$0	\$6.3 M
2. Math & Science Teacher Initiative	\$0	\$3.0 M
3. Western Interstate Commission on Higher Ed (WICHE) Subsidies	\$0	\$0.5 M
Total – Financial Aid	<hr/> \$0	<hr/> \$9.8 M

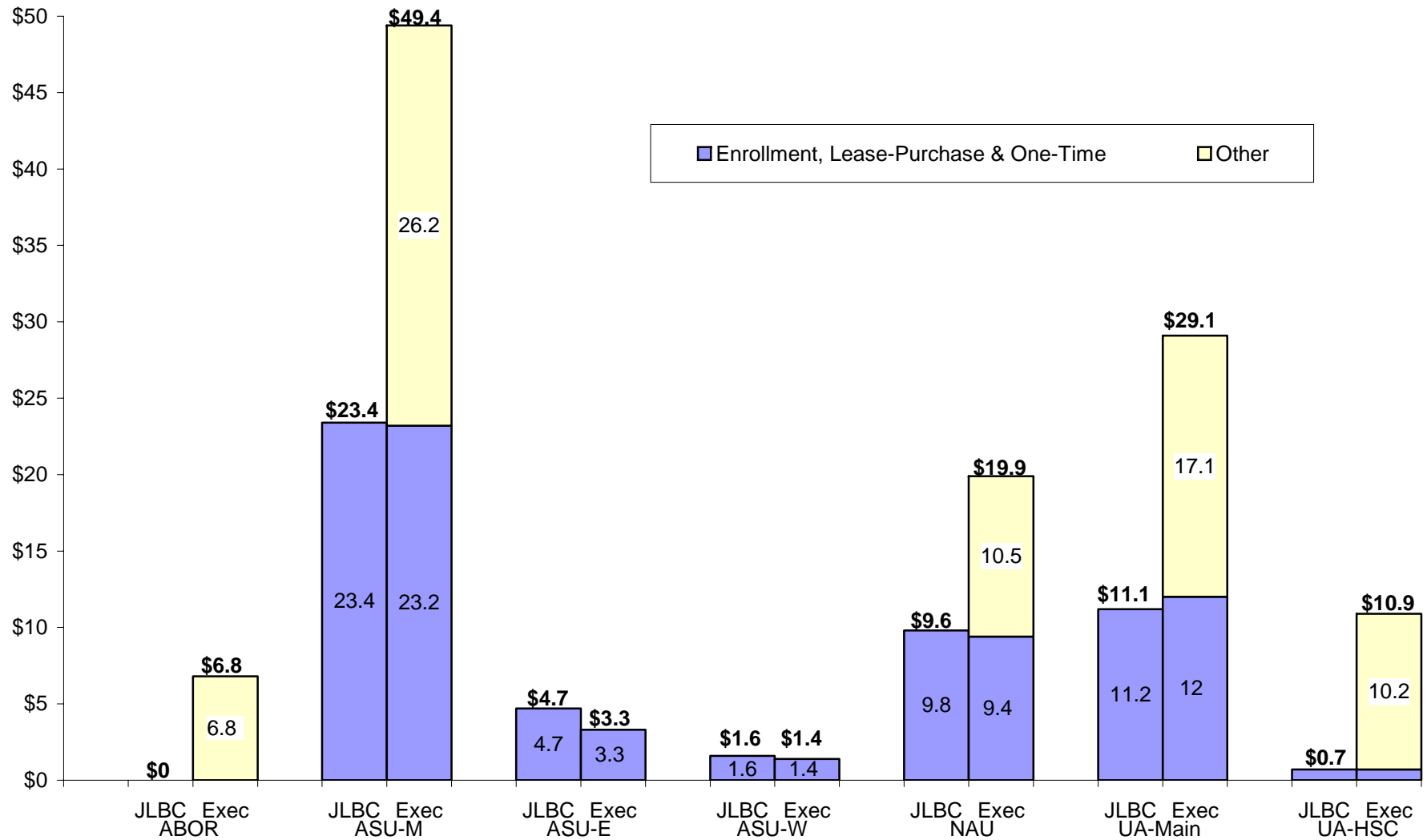
One-Time Adjustments

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Water Institute Funding	\$(1.5) M	\$0
2. UA-South Program Expansion	\$(1.2) M	\$(1.2) M
3. Senator Barry Goldwater Papers	\$(.5) M	\$(.5) M
	<hr/>	<hr/>
Total – One-Time	\$(3.2) M	\$(1.7) M

Other Items

<u>Policy Issue</u>	<u>JLBC Baseline</u>	<u>Executive</u>
1. Faculty and Student Retention and Competitiveness Fund	\$0	\$29.8 M
2. Valley Fever Research	\$0	\$1.8 M
3. School of Construction	\$0	\$1.5 M
4. Performance Incentives	\$0	\$1 M
5. Standard and Retirement	\$(0.5) M	\$1.9 M
	<hr/>	<hr/>
Total – Other	\$(0.5) M	\$36.0 M

Arizona University System FY 2008 Overall JLBC-Executive Comparison General Fund (in Millions)



Indirect Debt Financing

- Universities traditionally issued revenue bonds, but recently have used this type of financing for some projects
- Partnerships occur when Universities partner with:
 - University affiliated Non-profits (LLC)
 - Private entities
- Capital Projects built using this financing method are:
 - Not included in University debt ratio
 - Taken into account by bond rating agencies
- The 2006 Higher Education BRB included a provision to require JCCR review of certain types of indirect debt financing projects
 - Some projects are still not subject to JCCR review
 - The JLBC Baseline would require JCCR review of projects that may eventually become a state asset, and clarify that ground leases with private firms or non-profits are subject to review

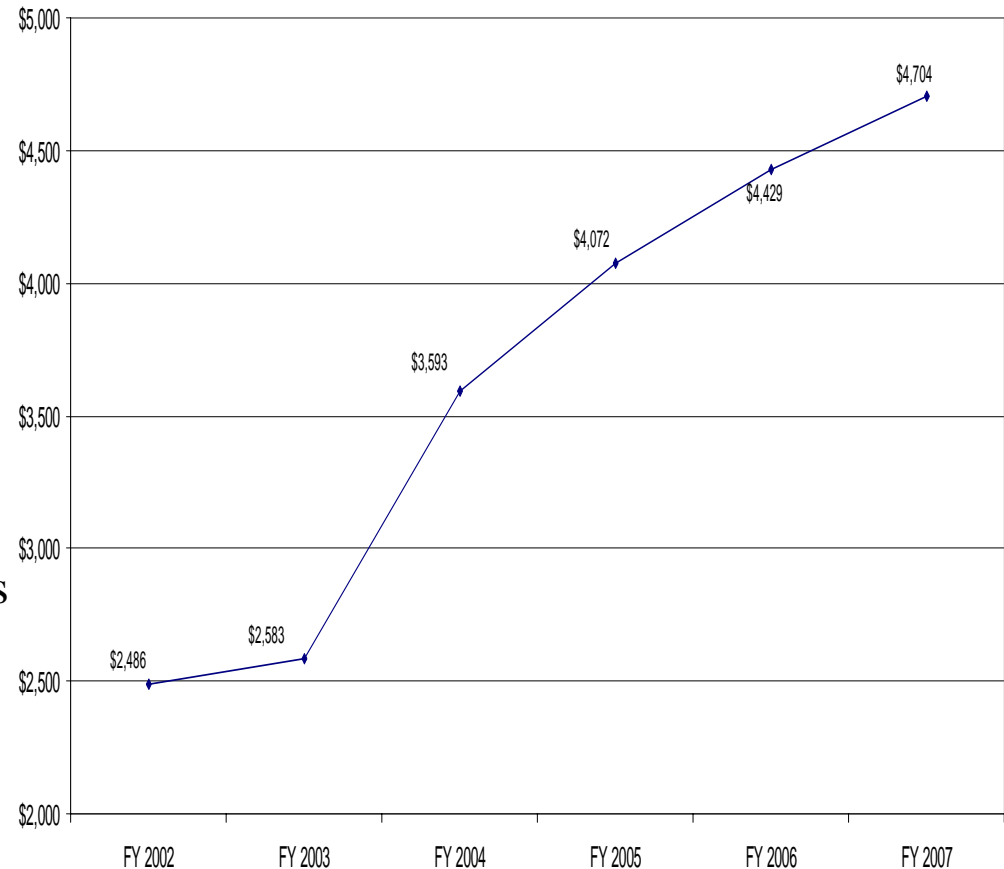
Examples of Indirect Debt Financing Projects

- NAU-Drury Hotel Ground Lease to construct a \$18.5 M conference center with parking.
 - Of the \$18.5 M project cost, \$11.7 M is from a NAU affiliated LLC, \$4.8 M is from NAU, and \$2M is from the City of Flagstaff
- ASU-American Campus Communities (ACC) Ground Lease Agreement to construct two \$230 M on-campus housing projects at the Tempe campus
 - ACC will finance the construction cost
- ASU-Capstone Development Lease Agreement to construct two \$116.6 M on-campus housing projects at Downtown Campus
 - Capstone Development will finance the construction cost
- ASU Foundation Building
 - Constructed before JCCR review of indirect debt financing enacted

Arizona University System

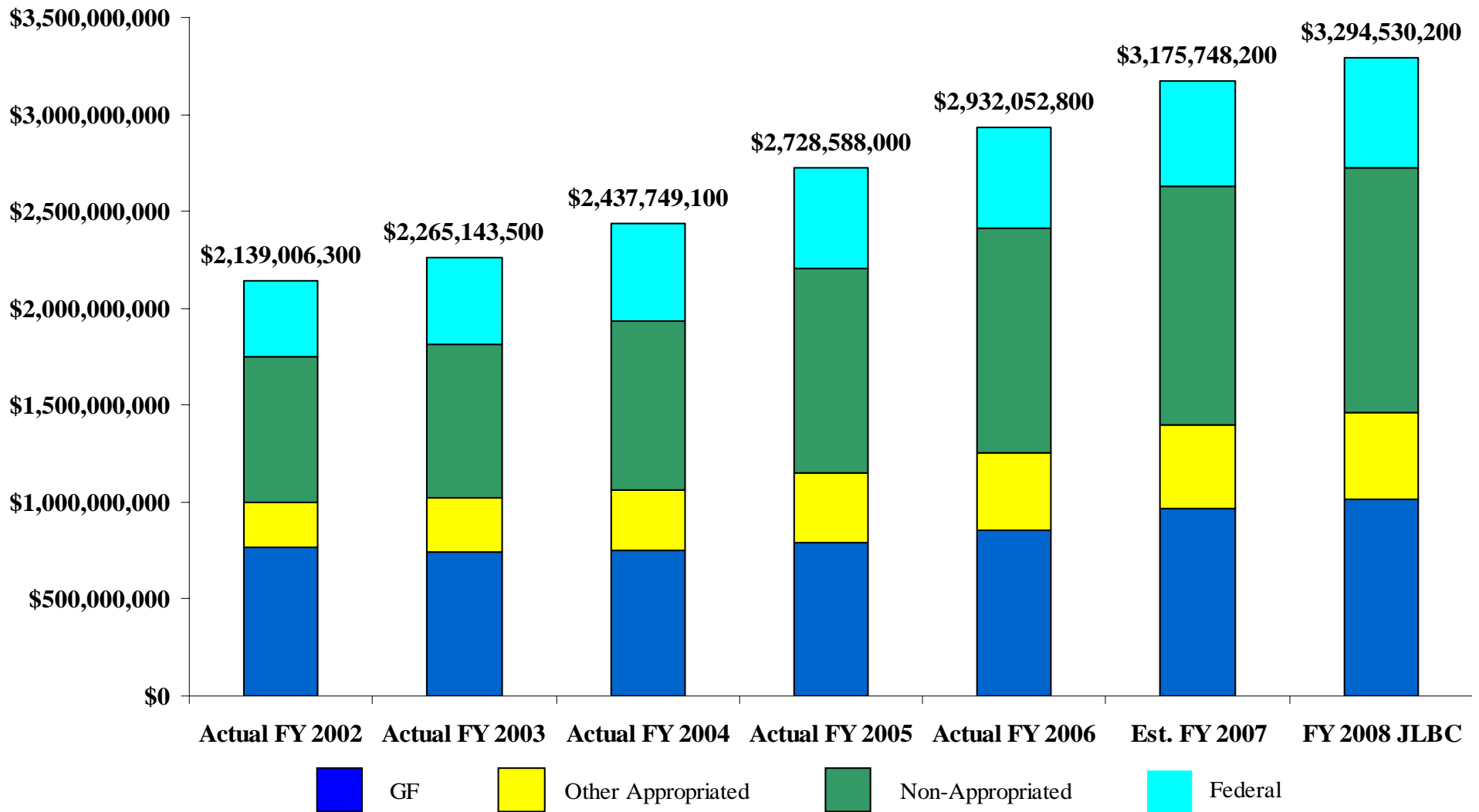
Resident Undergraduate Tuition and Mandatory Fees

- Rates averaged 14% annual increases since FY 2002
- In FY 2007, ABOR began approving tuition increases for the upcoming academic year in the fall
 - Resident undergrad tuition for FY 2008 increased 5% systemwide and will generate an additional \$41.9 M
 - Fees will be set in March
- The universities anticipate \$784.7 M in tuition collections in FY 2008 (does not include recent \$41.9 M increase), of which \$342 M is non-appropriated
 - \$41 M for operations
 - \$218M for financial aid
 - \$10 M for capital projects
 - \$73 M for debt service
- ABOR reports their expenditure plan for non-appropriated tuition



- All U's charged same resident undergrad tuition until FY 05
- FY 05 through FY 07 amounts represent weighted averages of distinct university tuitions

**Arizona University System
(including Arizona Board of Regents)
Total Funds FY 2002 - FY 2008**



Five-Year Strategic Plan

A.R.S. § 35-122 requires agencies which submit annual budget requests to submit a 5-year strategic plan by January 1 yearly. Legislative appropriations committees are to review these plans annually. Individual University strategic plans are available upon request

UNIVERSITIES
FY 2008 Budget Structure

<i>Current Structure</i>	<i>JLBC Proposed Structure</i>	<i>OSPB Proposed Structure</i>
Arizona Board of Regents -- Operating Budget -- Arizona Teachers Incentive Program SLI -- Arizona Transfer Articulation Support System SLI -- Nursing Education SLI -- Student Financial Assistance SLI -- Western Interstate Commission Office SLI -- WICHE Student Subsidies SLI	Arizona Board of Regents -- Operating Budget -- Arizona Teachers Incentive Program SLI -- Arizona Transfer Articulation Support System SLI -- Nursing Education SLI -- Student Financial Assistance SLI -- Western Interstate Commission Office SLI -- WICHE Student Subsidies SLI	Arizona Board of Regents -- Operating Budget
ASU-Main -- Operating Budget -- Biomedical Informatics SLI -- Downtown Phoenix Campus SLI -- Senator Barry Goldwater Papers SLI	ASU-Main -- Operating Budget -- Biomedical Informatics SLI -- Downtown Phoenix Campus SLI -- Senator Barry Goldwater Papers SLI	ASU-Main -- Operating Budget
ASU-East -- Operating Budget -- Lease-Purchase Payment SLI	ASU-East -- Operating Budget -- Lease-Purchase Payment SLI	ASU-East -- Operating Budget
ASU-West -- Operating Budget -- Lease-Purchase Payment SLI	ASU-West -- Operating Budget -- Lease-Purchase Payment SLI	ASU-West -- Operating Budget
NAU -- Operating Budget -- NAU-Yuma SLI	NAU -- Operating Budget -- NAU-Yuma SLI	NAU -- Operating Budget
UA-Main -- Operating Budget -- Agriculture SLI -- Arizona Cooperative Extension SLI -- Sierra Vista Campus SLI	UA-Main -- Operating Budget -- Agriculture SLI -- Arizona Cooperative Extension SLI -- Sierra Vista Campus SLI	UA-Main -- Operating Budget
UA-Health Sciences Center -- Operating Budget -- Clinical Rural Rotation SLI -- Clinical Teaching Support SLI -- Liver Research Institute SLI -- Phoenix Medical Campus SLI -- Telemedicine Network SLI	UA-Health Sciences Center -- Operating Budget -- Clinical Rural Rotation SLI -- Clinical Teaching Support SLI -- Liver Research Institute SLI -- Phoenix Medical Campus SLI -- Telemedicine Network SLI	UA-Health Sciences Center -- Operating Budget

Department of Veterans' Services

Executive Policy Issues for FY 2008

Total GF = \$1,336,700 above FY 2007

Veterans Benefit Counselors (VBCs) \$985K

- 19 additional FTE Positions
- Currently 41 VBCs (21 VBCs appropriated in FY 2007)

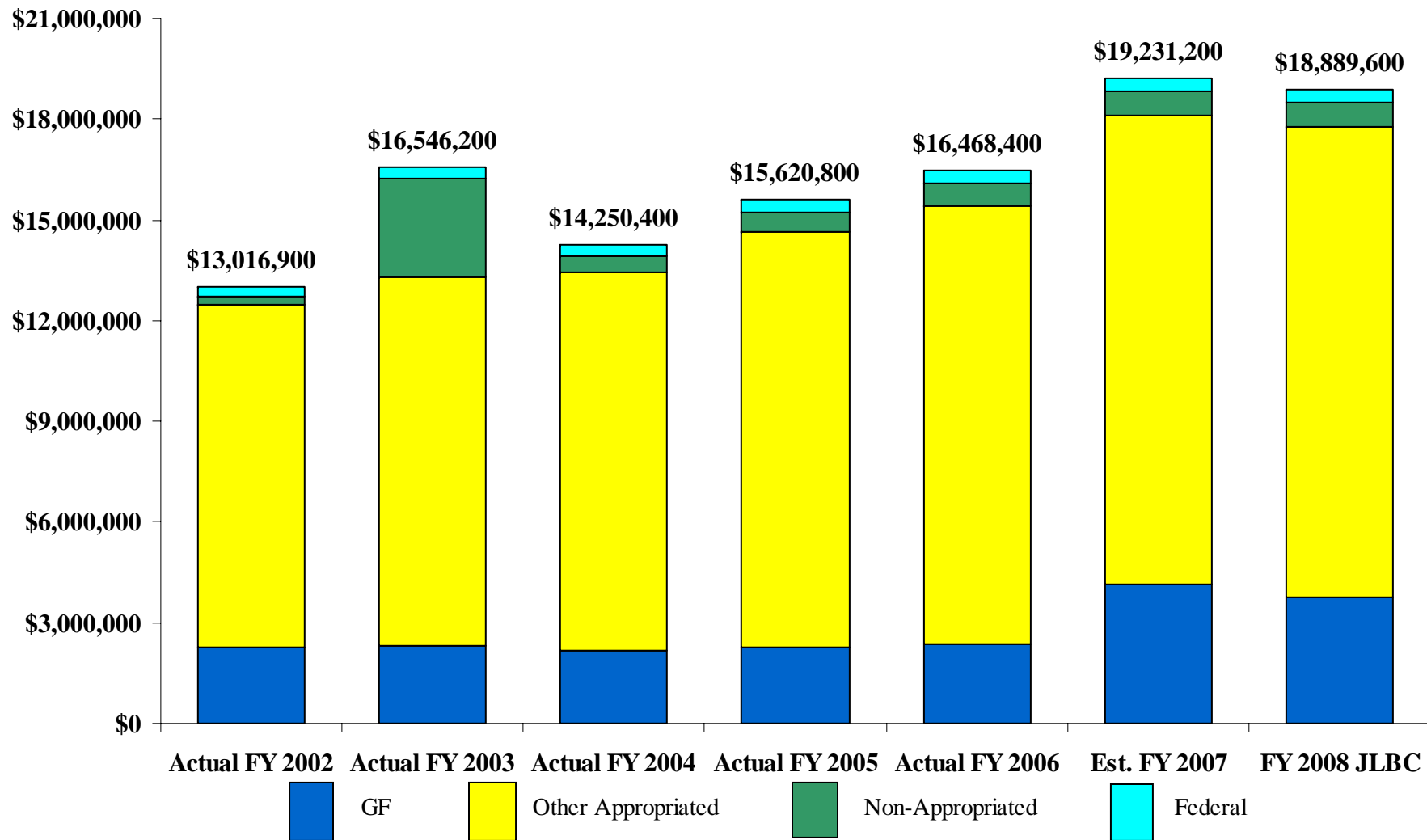
Agency Support Staff \$440K

- 11 FTE Positions
- Allow the Department to deal with increased workload of additional VBCs

Conservatorship/Guardianship Operating Costs \$240K

- Anticipated \$14K shortfall in FY 2008
- Allow the Department to increase number of clients
- Alternative: Increase conservator fees

Department of Veterans' Services Total Funds FY 2002 - FY 2008



Department of Water Resources

DWR's Higher Water Supply Fees Will Generate New Revenues for Assured and Adequate Water Supply Program

- '05 legislation allows department to retain fees for the operating costs of the permitting program.
- In '06, the Water Supply permitting program received \$2.0 M from the General Fund.
- In '07 budget, \$1.7 M GF of the \$2.0 M was designated as one-time, since the new fees were estimated to generate \$1.7 M.
- DWR now expects new fees to generate at least \$1.1 M in '08.

AAWS Resources Will Depend on Fee Collections

-- If \$1.7 M GF is Retained as Executive Recommends, will
DWR keep these funds in AAWS or Shift Elsewhere?

\$ in millions			
<u>Year</u>	<u>GF</u>	<u>OF</u>	<u>Total</u>
'06	\$ 2.0	--	\$2.0
'07 Budget			
- \$1.7 M GF designated as one-time	2.0	?	2.0 + fees
'08 JLBC Baseline			
- original DWR fee estimate	0.3	1.7	2.0
'08 JLBC Baseline			
- revised DWR fee estimate	0.3	1.1	1.4
'08 Executive	2.0	1.1	3.1

JLBC Baseline – Executive Comparison of Major Issues

<u>Policy Issue</u>		<u>JLBC Baseline</u>	<u>Executive</u>
1.	Assured and Adequate Water Supply	\$(1,700,000)	\$ 0
2.	Adjudication Support		
	- One-time funding in '07; \$600,000 remains in base	(500,000)	0
3.	Rural Water Studies		
	- DWR reallocated to requested but unfunded conservation office in '07	(500,000)	0
4.	Conservation Office		
	- DWR now seeking GF for office created last year with Rural Water Studies funds	0	500,000
5.	Water Protection Fund		
	- Would provide grants for restoration of streams and riparian habitats.	<u>0</u>	<u>4,000,000</u>
Total Changes from FY 07		\$(2,700,000)	\$4,500,000

Department of Water Resources **Total Funds FY 2002 - FY 2008**

